

EXHIBIT A

July 31, 2003

Cable or Satellite? Please Stay Tuned

By SETH SCHIESEL

MICHAEL G. MANSOUR, a 28-year-old Manhattan financial professional, used to watch television the way most people do. For his favorite shows, like "The Sopranos," he would make a point of being home when they were scheduled. If the show was something he more or less liked, he would put up with the commercials. If he felt like watching a movie, he went to the video store.

"Basically, I would try to remember my shows and flip to them if I could remember," he recalled this week.

How quaint.

Things started to change in Mr. Mansour's television life last fall when his cable provider, Time Warner Cable, introduced video on demand, which allowed him to watch "The Sopranos" and dozens of other programs and movies whenever he wanted. Then, for Christmas, he received a TiVo digital video recorder - "the greatest gift ever," as he put it - which lets him record his favorite shows effortlessly and even suggests new ones.

"Now, between TiVo and the on-demand, I don't watch anything live anymore," he said. He doesn't go to the video store, either. And he skips past most commercials.

So does he watch more or less television than he used to?

"I watch better television than I used to," was his reply.

Within the next five years or so, Mr. Mansour's new habits may become common as the cable and satellite television industries stake their competitive future on a panoply of services that go far beyond the daily program grid.

Even Mr. Mansour's seven-month-old TiVo recorder may soon face a new kind of competition. In September, Time Warner Cable is planning to introduce a new set-top box in New York City that will include a TiVo-like recorder fully integrated into the overall cable system. The service will cost \$5 to \$10 a month (compared with \$13 for TiVo), with no charge for the box itself (TiVo charges \$249 or more).

And this month the competition to offer new digital television services grew hotter when Cablevision, the big New York City area cable TV provider, launched a direct-broadcast television satellite from Cape Canaveral.

Phone companies, too, are getting into the act. Last week SBC Communications, the local-phone giant, announced that it would invest \$500 million in EchoStar, the No. 2 satellite television company in the nation after DirecTV, and try to sell packages of television, high-speed Internet access, and home and wireless phone service.

While many communications and media experts are skeptical about Cablevision's and SBC's plans, the moves

underscore the frantic pace at which such companies are offering new TV services. The problem is figuring out what seems most worthwhile.

For potential customers, "it's going to take a while to sort through all of these messages," Aditya Kishore, an analyst for the Yankee Group, a research firm in Boston, said in a telephone interview. "From a consumer perspective, you really need to do your research and figure out what you're getting."

Of course, the point of most new services is to allow more convenience, not confusion. Whether the product is video on demand or an integrated TiVo-like digital video recorder, the aim is to let viewers be the masters of their television rather than remain at the mercy of a network scheduler. "The whole category has been about the customer being able to get control," said Chuck Ellis, executive vice president and chief marketing officer at Time Warner Cable, the No. 2 cable company after Comcast.

Many communications and media experts believe that in the end, consumers would prefer to buy as many services as possible from one company: a one-stop shop offering telephone, television and high-speed Internet service and perhaps even cellphone service, on one integrated bill.

Just as important, perhaps, in the rise of competition is the static or in some cases shrinking number of customers for many telephone and cable companies. To show improving financial results, the companies need more revenue from their remaining customers; hence the new services.

In much of Manhattan, for example, Time Warner's standard analog service, which includes more than 60 channels, is \$44.54 a month. The basic digital package, with more than 150 channels of television, including high-definition programming, plus 45 channels of digital music, costs \$49.95. The next tier, with three premium channels and associated video-on-demand services, is \$69.95.

Each sector of competitors has built some advantages over the others. Cable companies have a leg up in offering video on demand; satellite rivals are countering with an emphasis on sophisticated video recorders. Cable companies have far outpaced phone companies in providing high-speed Internet service, an area in which the satellite companies are hardly even players. Satellite companies have the lead in delivering high-definition television programming, but cable companies are catching up.

Video on Demand

The most prominent addition to the panoply of digital services is video on demand. In such a system, a cable operator installs racks of hard drives in its offices, holding hundreds of hours of television programming and movies, all of it available to any subscriber at any time. Users can pause, rewind and fast-forward the programs just as if they were watching on a VCR. (The user generally cannot, however, skip ahead to certain scenes, as with a DVD.)

To get video on demand, a cable subscriber must first subscribe to digital cable service, which also generally features more channels, better picture quality and an interactive program guide. Almost all of the nation's 72 million cable subscribers now have access to digital cable, though only about 21 million have signed up so far, according to Yankee Group estimates. Of those 21 million homes, about 10.3 million have access to video on demand, according to the Yankee Group.

Digital subscribers may not even know they have video on demand because in its most basic incarnation, the service does not cost extra (over the surcharge for digital cable); it is priced by use, as with scheduled pay-per-view television. Time Warner video-on-demand customers, for instance, pay \$3.95 for a new movie and then may watch it as many times as they like for 24 hours.

"V.O.D. today is largely driven by movies," Mr. Kishore said.

The other incarnation is known as subscription video on demand, which allows users who pay a flat fee, perhaps \$6.95 a month, to receive unlimited access to a certain subset of programming. HBO On Demand, a favorite of viewers like Mr. Mansour, allows users unlimited access to HBO programs like "The Sopranos" and "Sex and the City," in addition to a selection of films that are currently playing on HBO.

Digital Video Recorders

Because of the technical nature of satellites, which generally have to beam the same information to millions or hundreds of thousands of homes, satellite providers like DirecTV and EchoStar are not able to offer video on demand. Instead, the satellite providers are counting on integrating TiVo-like digital video recorders, or D.V.R.'s, directly into satellite converter boxes.

"I am not that alarmed by V.O.D.," Terry L. Ferguson, DirecTV's vice president for business development and research, said in a phone interview. "It is an interesting kind of feature, but a D.V.R. can do all that and more and provides more flexibility."

While a stand-alone digital recorder like TiVo or ReplayTV can work with any kind of television service, satellite providers turned the technology to initial advantage by offering boxes integrating such recorders while cable companies did not.

The Yankee Group estimates that about 2.4 million homes in the United States now have some sort of digital video recorder. For its part, TiVo says it has about 703,000 customers, including DirecTV subscribers. (DirecTV offers a set-top box with an integrated digital video recorder that uses TiVo technology; EchoStar's counterpart does not.)

Those figures suggest that there are about 1.7 million homes with a non-TiVo digital video recorder. Bob Scherman, editor and publisher of Satellite Business News, estimated that EchoStar had about 750,000 to 800,000 of those users.

Cable companies are making a push in the same direction. Time Warner says it has deployed about 150,000 total boxes with digital video recorders built in, scattering them among 27 of the company's 31 geographic markets. Comcast has not yet introduced boxes with such recorders except in test marketing, but intends to offer commercial service later this year. "It is clearly something that consumers are interested in," said David N. Watson, executive vice president for sales, marketing and customer service for Comcast's core cable operation.

Cable operators believe that an integrated recorder can be superior to a stand-alone device like TiVo because the integrated unit could be easier to use. TiVo, naturally, has a different perspective.

Eventually, consumers may gain the benefits of such recorders without installing new hardware at all. AOL Time Warner, for instance, is in the early stages of developing a product meant to allow viewers to use a hard drive at a cable company's office to record programming and pause live television, as TiVo does.

High-Definition Television

Even as video on demand and integrated digital recorders become more popular, a parallel groundswell is forming around HDTV, with prices dropping and high-definition programming becoming more widely available. Mr. Watson said that in Philadelphia, for instance, Comcast's digital service includes HDTV

offerings from the local ABC, NBC and PBS affiliates, Comcast's local sports network, Showtime and HBO. Comcast will soon offer ESPN's high-definition service in many markets. It charges about \$5 a month for a set-top box capable of decoding high-definition signals; some cable companies provide it free.

Satellite subscribers still have access to more high-definition programming than most cable customers. For instance, DirecTV's HDTV package includes ESPN, the new HDNet service, HBO, Showtime, some pay-per-view movies and some sporting events. But cable companies may be able to close the gap by offering more high-definition programming from local stations and network affiliates - a challenge for satellites, which have limited ability to serve many different areas. With Cablevision's satellite launching this month, the competitive equation between cable and satellite providers becomes even more complex. Cablevision has said little about when and where it might offer satellite service, but it is hoping that its new satellite will eventually allow it to use new forms of video compression that will make it easier for a satellite to deliver more local high-definition signals. Wilt Hildenbrand, Cablevision's executive vice president for engineering and technology, said in a telephone interview that he hoped that the new compression system, known as MPEG-4, would become available for consumer television over the next two years.

Making a Choice

In all, the array of services has made choosing between cable and satellite more difficult. Mr. Kishore, the Yankee Group analyst, said that for consumers, the choice boils down to what services they value most. "The first issue is that satellite has traditionally given you a bit more personalization in terms of content; the way they design their packages has given consumers more flexibility," he said. "The second is that you can't do V.O.D. on satellite, so if you're a very high movie watcher and you have limited flexibility in your schedule, then that's an important reason to go with cable. Third, for customer care, satellite has tended to rank high."

And as for integrated digital video recorders and HDTV, he said, "cable may not have these services available now, so if you want those now you might have to go to satellite."

In a year, of course, all of those equations could change, and probably will.

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April 15, 2003, Tuesday

BUSINESS/FINANCIAL DESK

TECHNOLOGY; Trying to Close Technology Divide As Satellite Operators Battle Cable

By MATT RICHTER (NYT) 1233 words

SAN FRANCISCO, April 14 -- The recent acquisition of DirecTV by Rupert Murdoch's News Corporation adds another piece to his global satellite empire and puts him at the center of a fierce technological battle -- one in which he and other satellite operators have lost the clear advantage they once had over cable competitors.

The fray is a technological tit-for-tat in which the satellite companies and cable companies -- vying for the eyes and dollars of viewers -- are investing heavily in technology to offer new interactive entertainment. Each system appears to have its advantages, according to industry analysts, but what is generally accepted is that the satellite operators, including DirecTV, have lost the large technological lead they held in the mid-1990's.

"Cable has moved from an inferior platform to a superior one," said Jessica Reif Cohen, the media and entertainment analyst with Merrill Lynch. "News Corp is one of the most experienced global operators," she added. "But I don't think cable is a sitting duck."

The long-term risks are substantial, given Mr. Murdoch's investment of \$6.6 billion for control of Hughes Electronics and its DirecTV operation from General Motors. At stake are not only monthly fees for television, interactive entertainment and high-definition feeds, but also for Internet access, and even telephone service.

The satellite and cable competitors are all trying to determine the kinds of services customers want and then enable their systems to deliver those services. It is a race that has heated up considerably since the mid-1990's, when satellite providers had the technological advantage.

While cable companies had relied on sending programming through analog signals, satellite operators used digital signals, enabling them to offer more channels and interactive programming guides. The cable companies, worried about their very existence, have in seven years spent some \$70 billion to upgrade their systems to digital.

Today, the technological differences are partly attributable to delivery systems -- cable's land lines versus

satellite's dishes. The dish offers the advantage of allowing less expensive, more widespread installation since installation does not entail laying cable in the ground.

But the cable companies have the ready ability to use their land lines to offer other services, like video-on-demand and Internet access. And cable technology is more developed than satellite at this point to carry two-way data traffic.

The satellite operators, both DirecTV and the Dish Network, operated by EchoStar, have trailed the cable competition in Internet access. Across the country, cable companies have hooked up 12 million homes with high-speed Internet access, according to Robert Sachs, president and chief executive of the National Cable and Telecommunications Association, an industry trade group.

Mr. Sachs said that Internet access through cable modems is available to 80 to 85 percent of the homes where cable television is accessible. The availability of high-speed Internet service also offers a new revenue stream for cable companies, with the average monthly price for the service at \$40 to \$60, Mr. Sachs said.

The satellite systems, however, have yet to figure out how to offer such two-way communication. Hughes Electronics is working on a two-way data satellite system called Spaceway, but that system is intended primarily to transfer data within and among corporations, said Brad Beale, senior vice president for product development and advanced services for DirecTV.

"I don't know if it will be competitive in terms of being able to offer a consumer service," Mr. Beale said. As for offering consumer Internet access, he added that "satellite is not a terrific platform for doing that."

Still, the satellite industry is not giving up on Internet access. Mr. Beale said DirecTV was joining telecom companies to offer digital packages. And Bob Scherman, publisher and editor of Satellite Business News, a trade publication, said EchoStar was planning in May to launch a next-generation satellite that uses Ka-band technology that should be able to offer high-speed Internet access by the end of the year.

The other area where cable contends it has an advantage is in the delivery of video-on-demand. This technology lets consumers purchase movies and other programming when they want to watch it, then use their remote controls to fast forward, rewind and pause as if the programming were on videotape. In fact, the programming is kept on the cable company's servers.

Comcast, the nation's largest cable provider, offers an on-demand package, costing either \$9.95 a month or \$14.95, depending on the level of service. That package allows users access to about 1,000 hours of free on-demand programming from channels like Comedy Central and Biography. Customers also can purchase movies on demand for \$3 to \$4, according to Dave Watson, Comcast's executive vice president for marketing.

But the satellite industry has its own answer to video-on-demand. It has moved aggressively to install personal digital video recorders that allow consumers to record hours of programming and surf through it with a remote control. The satellite industry believes that these digital recorders effectively allow video-on-demand because consumers can download the programming they want and watch it when they want.

"If the battle lines are video-on-demand versus digital video recorder, we're comfortable there," Mr. Beale said.

Meanwhile, the satellite industry has forged ahead in areas where cable operators have not become

established yet. In Britain, Mr. Murdoch's satellite company, BSkyB, has made inroads offering interactive programming that allows television viewers to navigate text pages offering weather and news information. That infrastructure also lets viewers go shopping via their televisions.

"The reality is that they're behind," Mr. Beale said, referring generally to the cable industry. "But can we sustain a two- or three-year technological advantage? I don't know, but I'm happy to have it."

Meanwhile, there is a third competitor in digital entertainment. Consumer electronics companies, notably TiVo, the maker of digital television recorders, have entered the game by making it possible for consumers to record, store and play back a large number of programs with relative ease regardless of whether they subscribe to satellite or cable.

"This is a three-way race," said Howard Anderson, founder of the Yankee Group, a market research firm. "It's consumer electronics versus satellite versus cable."

From his perspective, Mr. Anderson said, satellite operators have the upper hand. He said he believed that once a customer abandons cable for satellite service, that customer is unlikely to return to cable. The reason, he said, is that satellite has offered better service and more options, and also that satellite customers do not want to lose the investment they made in buying the dish.

At the same time, Mr. Anderson said, cable companies in general continue to see a relatively high erosion of their customer base. They are losing more subscribers to satellite competitors.

"They're seriously scared," he said, referring to the cable companies. "The guy that keeps them up at night is Murdoch." He said that Mr. Murdoch represents a particular challenge because he can control both the delivery system and the content. "He's playing 3-D chess while they're playing checkers."

CAPTIONS: Photo: An employee adds fliers to the DirecTV display at a Best Buy store in Pasadena, Calif. Satellite and cable are fighting for television dominance. (Bloomberg News)

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THIS STORY HAS BEEN FORMATTED FOR EASY PRINTING

The Boston Globe**SATELLITE IS DISHING OUT COMPETITION TO CABLE****Author(s):** BRUCE MOHL **Date:** December 8, 2002 **Page:** G3 **Section:** Business

Furious about AT&T Broadband's plan to hike cable TV rates 7.8 percent in January, Bert Gay of Jamaica Plain says the company is a monopoly run amok.

"I have no other option for cable service other than AT&T," Gay said. "Where are the legislators and regulatory watchdogs? I urge all AT&T subscribers dissatisfied with this pattern of behavior to contact the city of Boston, the state attorney general's office, and their own legislators." What about calling DirecTV?

AT&T may be facing limited competition from RCN Corp. and municipal cable systems, but satellite operators like DirecTV and Dish Network are offering consumers a real choice. The satellite companies can't match AT&T's ability to bundle telecommunication services, but they have siphoned video-oriented customers away from cable by generally offering more value, better sound, a better picture, and a much better track record for holding the line on price increases.

"Cable is very brazen about raising its rates year in and year out," said DirecTV spokesman Bob Marsocci.

Apples to apples comparisons are difficult, but satellite service seems the most compelling deal for entry-level couch potatoes. In Newton, the monthly cost of AT&T's 70-channel standard service is rising from \$45.05 to \$48.08 on Jan. 1. DirecTV's Total Choice package easily matches AT&T's offering and adds 36 music channels for \$37.99, a savings of more than \$10 a month. DirecTV also offers digital sound and a digital picture, something AT&T can't match at the standard service level.

DirecTV has also eliminated two of its major weaknesses. It began adding local channels in late 1999 (at a cost of \$6 a month) and it has brought down the upfront cost of installation. It currently is offering a dish and receivers for two TV sets for \$50 plus a one-year subscription to the Total Choice package, which costs \$31.99 a month without local channels.

Cable still has major advantages. Cable customers don't have to sign long-term programming contracts and they lease their equipment, which protects them against changes in technology. Satellite customers have to buy and install their own equipment (including those unsightly dishes), which means they have to upgrade as technology changes.

Even more significant, AT&T can package local phone, cable, and high-speed Internet services on one convenient bill and offer discounts on bundles to make sure customers remain loyal.

AT&T's digital cable packages, for example, have almost the same quality, content, and price as what DirecTV offers. AT&T charges a little over \$90 a month for its top-of-the-line digital platinum package. The corresponding DirecTV offering, Total Choice Premiere, costs \$86 a month. But the price difference is erased if the customer also buys high-speed Internet or local phone service from AT&T and qualifies for a \$5 bundling discount.

The bundles can also attract and bind customers to AT&T's cable packages. For example, AT&T recently announced it planned to hike the cost of its popular high-speed Internet service by about \$10 a month for those customers who don't buy either cable or phone service from the company.

Karen of Newton, an AT&T Internet-service customer who asked that her last name not be used, said she had no interest in purchasing cable TV or phone service until she discovered she would have to pay only about \$1 more a month if she purchased basic cable and qualified for a special discount.

Randy Waddell, vice president of marketing at AT&T, says the penetration of satellite broadcasters in New England is below the national average. DirecTV just as adamantly insists its penetration here is 20 percent above the national

average.

Whatever the numbers are, the two sides are serious competitors. Their advertising campaigns, often aimed directly at each other, attest to that. AT&T, for example, is currently offering New England satellite customers a \$200 credit toward service if they turn in their dish and sign up with AT&T.

"Just look at your dish as a big, round, ugly coupon," the offer suggests.

Kmart not in compliance?

In a mid-August court judgment with Attorney General Thomas F. Reilly, Kmart Corp. agreed to bring its 25 Massachusetts stores into compliance with the state's scanner accuracy and item-pricing laws within 90 days or face a \$205,000 fine.

The 90 days are up and it appears Kmart still has work to do. Reilly's office referred questions to Boston's Inspectional Services Department, which did not return phone calls. But Kmart spokeswoman Laura Mahle said the stores have made significant progress, although she acknowledged more work needs to be done.

She said stores in Brighton and Somerville recently passed scanner accuracy tests, while the South Bay store scored 90 percent, 8 percentage points below a passing grade. I checked the South Bay store for item pricing and found poor compliance.

Reilly seems in no hurry to enforce the court judgment. Does he really want to fine a retailer that is operating under bankruptcy protection?

Home Depot woes

Massachusetts hasn't been very friendly to Home Depot lately.

Last month, the hardware store chain paid \$3.8 million to settle a class-action suit over item pricing.

Last week, Middlesex Superior Court Judge Peter M. Lauriat handed a legal victory to a group mounting a class-action suit over the hardware store chain's failure to properly charge sales tax.

According to the decision, Home Depot for nearly a year failed to comply with a change in state sales tax policy on manufacturer coupons. Instead of charging sales tax on an item's price after a manufacturer's coupon is deducted, Home Depot continued to charge sales tax on the original, pre-coupon amount.

During the period Home Depot wasn't in compliance, it accepted 3,755 coupons and collected nearly \$225 in sales tax that it shouldn't have. The hardware store chain didn't pocket any of the money - all of it went to the state - but Lauriat sided with the law firm of Stern, Shapiro, Weissberg & Garin in concluding the failure was a violation of the state's consumer protection law. The case can now proceed.

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DISH GAINING ON CABLE

Published on November 10, 2002

Author: FRED O. WILLIAMS - News Business Reporter

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Along with his satellite TV service, football fan John Zilliox got an electronic box that lets him pause, back up, and replay the action when he wants. With the digital recorder, "you can go make yourself a sandwich, come back and pick up where you left off," the Kenmore resident said.

For Joe Finley in North Tonawanda, it wasn't slick technology that got him to switch to satellite a few weeks ago -- just old-fashioned money in his pocket. "It's much cheaper than I was paying for cable," the auto worker said. His subscription from Dish Networks is about \$10 a month less than his bill from Adelphia Communications.

From out of a clear sky, the small-dish "direct broadcast satellite" has come of age, capturing a significant chunk of pay-TV territory that used to be cable's sovereign domain. Satellites orbiting above the equator beamed television to 16 percent of U.S. households in 2001, up from 5 percent in 1997.

Last week, Adelphia Communications reported a quarterly decline in basic cable subscribers for the first time in recent memory, citing competition from satellite. Adelphia had the handicap of being in bankruptcy reorganization, but it wasn't the only cable giant going backward -- Cablevision and Charter Communications also saw subscribers depart.

Direct satellite's blast-off marks a shift in the pay-TV market, some analysts say, and a new environment for consumers. Under the shadow of dish competition, cable operators may moderate their prices while pushing non-TV products like Internet service harder.

"We've got market saturation," said Bruce Leichtman, whose Leichtman Research studies the pay-TV industry. "In areas where cable exists, 80 percent of people either have cable or DBS -- the wall has been hit."

Adelphia saw a decline in basic subscribers in Western New York as well as nationwide, regional vice president Tom Haywood said. The company's approximately 350,000 subscribers in Erie and Niagara counties have

dipped before, because of seasonal disconnections as well as competition, he said.

"We welcome competition -- it's good for us," he said.

Meanwhile, vendors for the two major satellite services say they are going great guns -- a claim that's supported by the southward-pointing antennas sprouting on ledges and rooftops.

Installer Ron Osinski, owner of TV Planet in Cheektowaga, says his company is putting up 200 to 300 new antennas a month, with the busiest part of the year still to come.

Fueling the growth are low entry-level prices and the addition of local channels, which weren't available on satellite until recently. DirecTV began offering local broadcast channels this summer, and Dish Networks is expected to follow suit -- perhaps as soon as this week.

Some local ads for Dish Networks urge customers to sign up now to "avoid the rush." Intertech Digital Entertainment, an agent for Dish, has been installing two-satellite antennas that will allow area subscribers to quickly add local stations when they become available, marketing director Karl Schmelz said.

"All of our people are ready to go," he said.

The addition of local channels has been like a booster rocket for satellite subscriptions nationwide. Since they began beaming local channels in 1999, satellite services have been adding 3 million customers a year, according to the Federal Communications Commission. Between mid-2000 and 2001, DBS added subscribers at more than twice the rate of cable.

The battle may be cable versus satellite, but it looks like consumers are winning.

For their entry-level offers, the satellite services no longer require large up-front payments for equipment and installation. As long as you stay subscribed for a year or more, start-up costs are about \$50 through a combination of rebates and promotional offers. Intertech is promoting Dish subscriptions at \$28 a month with installation, about a third less than basic cable.

Satellite had a setback last month when the merger of the two big players was blocked, but consumers have no reason to be disappointed, analysts said. While lower operating cost gives satellite a delivery edge over cable -- they don't need to keep building networks to add subscribers -- having two national providers should keep a check on their prices.

"If economic history has taught us anything, it is that healthy competitive markets, not regulated monopolies, maximize consumer welfare," FCC

chairman Michael Powell said in a statement Oct. 18.

Satellite companies warn that without the merger, they'll run out of capacity to add more local stations. EchoStar Communications, parent of Dish Networks, has local channels in 47 cities and can only add two more, spokesman Marc Lumpkin said.

But for TV viewers, the cancellation of the merger plan seems to have been a non-event, Schmelz said. With the merger off the table, customers don't have to worry about their equipment being made obsolete by a successor company.

"It's one more reason to stop waiting," he said. "Anytime you remove uncertainty in business, it helps the market."

As for cable, Adelphia and other providers will be less able to continue boosting their rates faster than inflation, analysts said.

"The game has changed," Leichtman said. "I think they have moderated their rate increases already."

Haywood said Adelphia will work to avoid raising prices, but he added that that's not new. "We are always sensitive to raising our rates," he said. "We look at it in great detail." Adelphia had two rate increases this year in the Buffalo area for a total of about 9 percent.

While wireless TV companies are growing, the impact on the cable competition is not all bad, analysts said. In the shrinking subscriber base there may actually be a glimmer of good news for Adelphia, which employs 1,700 workers in the Buffalo area.

While it lost basic subscribers, Adelphia continued adding Internet and digital television customers, whose bills with premium channels can go skyward of \$100 a month. During the three-month period that ended Sept. 30, Adelphia added 62,400 "Powerlink" Internet customers, a rise of 11 percent.

Because the satellite companies compete on price, the customers they take from cable tend to be lower-profit business, Leichtman said -- those who are less likely to order extra services, and more likely to miss paying bills.

Meanwhile, cable customers who also buy high-speed Internet service are less likely to disconnect.

Cable companies "might stop chasing the low end, which might have been their non-pays anyway," Leichtman said.

So while satellite pushes channels, expect to see Adelphia and other cable companies increasingly focus on their high-speed Internet package, recruiting customers that pay more per month and are less likely to switch.

"It's not just about getting the next \$30 to \$35 subscriber," Leichtman said.
"It's making sure you get the right customers and making sure you keep them."

e-mail: fwilliams@buffnews.com

MICHAEL GROLL/Buffalo News

Cable TV: Gaining digital, Internet customers.

BILL WIPPERT/Buffalo News

Satellite TV: Gets boost from carrying local stations.

Graphic- How they compare

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SATELLITE, CABLE PROVIDERS SEEK EDGE ; ADS MAY BE FUNNY BUT THE RIVALRY IS FIERCE:[Broward Metro Edition]

Joseph Mann Business Writer. South Florida Sun - Sentinel. Fort Lauderdale, Fla.: Mar 30, 2003. pg. 1.G

Abstract (Article Summary)

WHO OFFERS WHAT? These are monthly rates for the lowest-cost service packages. Cable fees may vary according service area. Companies frequently offer special pricing. ADELPHIA: \$43.85 for 70-plus channels, depending on service area. Company charges installation fee; set-top box required for premium packages. COMCAST: \$36.10 for 59 channels, depending on service area. Company charges installation fee; set-top box normally required. DIRECTV: \$38.99 for more than 115 channels, including local stations. any fee for dish? DISH NETWORK: \$24.99 per month for 50 channels or \$33.99 for 100 channels, plus \$5.99 a month for local channels.

Full Text (1247 words)

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Informational box at end of text.

In a TV advertisement paid for by Comcast cable TV, an indignant wife confronts her husband in their living room as he watches the new satellite channels he ordered while she was out.

"What happened to the tree?" she asks, referring to a magnificent old tree outside the house with a neat hole punched through its core. The husband explains that the satellite company needed clear access for its signals. He then points to a solid, round chunk of wood, with bark still attached, resting next to his chair and precariously supporting a glass. "It makes a great end table," he adds.

The ad, which aired locally, is part of national advertising campaigns sponsored by cable and satellite TV providers. The spots, praising the benefits of each pay-TV system and using humor to attack the competition, reflect the fierce competition for new customers among the country's 106.7 million TV households.

In South Florida, a wealthy market with 2.2 million TV households, satellite providers DirecTV Inc. and the Dish Network are battling with cable companies Adelphia Communications Corp. in Palm Beach County and Comcast Corp. in Broward to gain market share. Aside from offering a wide range of channels, including local stations, both cable and satellite have taken aim at the Hispanic market by providing packages of Spanish-language programming.

Cable is still dominant, but satellite is snapping up new customers. In Broward, for example, Comcast, which took over the subscribers of AT&T Broadband when it bought out the AT&T Corp. unit last year, has about 400,000 subscribers out of an estimated 460,000 cable customers. Adelphia has some 550,000 cable subscribers in Palm Beach County. The majority of cable customers buy the lowest-price, or basic, service plan.

The satellite companies together have about 20 million subscribers nationwide. But they will not reveal figures on local or state markets. They apparently worry that cable companies competing with them in different markets may offer special deals to undercut their growth. Even so, to give an idea of how fast the satellite sector has expanded, Dish, a unit of EchoStar Communications Corp., moved from just over 1 million customers five years ago to 8.2 million today.

'A FIERCE COMPETITOR'

Not long ago, satellite providers were able to easily win over customers in Broward County because of service problems with AT&T Broadband, formerly the county's biggest cable player.

After AT&T Broadband took over former Comcast clients in Broward and Miami-Dade counties in 2001 as part of a nationwide market swap, billing operations and customer service deteriorated. Customers in Broward sometimes spent hours on the phone waiting to speak to an AT&T service representative and local governments, angered by the

company's failure to address problems and move ahead with a promised upgrade of the system, sought other alternatives, including a different cable supplier and the satellite companies.

"We did special offers in Broward County and there was a strong positive reaction," said Bob Marsocci, senior director of communications for DirecTV and vice president of corporate communications for Hughes Electronics, which owns the satellite company. Local government officials, who were eager to remove AT&T Broadband, invited DirecTV officials to discuss how they could supply service on a wide scale.

But things have changed. Comcast bought out AT&T Broadband's nationwide network at the end of last year and returned, becoming the dominant cable company in Broward. Comcast began work on a \$200 million investment program aimed at upgrading its South Florida cable TV network over the next two years, installing new equipment and fiber-optic cable. This will permit Comcast to offer high-speed Internet connections, video on demand and high-definition TV throughout its service area.

New, multimillion-dollar investments by Comcast and Adelphia are aimed at offering high-value services throughout the South Florida market and blunting satellite's steady market progress.

"Satellite is a very fierce competitor," said Chuck Blaine, Adelphia's director of government and community affairs based in West Palm Beach, which faces marketing attacks from both DirecTV and Dish. Still, "the impression is that we're losing customers by leaps and bounds, but that's just not the case." Blaine said that cable companies in South Florida typically lose clients in March and April as snowbirds migrate north, and regain the same clients in the fall and winter when they return.

Adelphia's customer base grew by 1-2 percent last year in Palm Beach County, he added, and the company expects similar growth this year. These growth rates are lower than they were five years ago, but the subscriber base is larger.

Comcast, DirecTV and Dish also said that they've gained subscribers, but it wasn't clear if satellite was picking up new clients at the expense of cable.

WHO'S GOT THE EDGE?

Each service says it offers distinct advantages.

Satellite claims that its basic service is generally cheaper than cable and offers more channels, and that it does not raise prices as often as the cable companies. The cable companies say their rate increases have been matched by service improvements like digital service, more channels, fast-access Internet service and telephony and community stations. They also say that average costs -- taking into consideration all the ongoing specials -- are much the same.

Consumer groups don't agree. "Cable just keeps on raising rates, bundling high-speed Internet with basic service and acting, in a general way, as though they're not constrained by competition from satellite," said Mark Cooper director of research for the Washington-based Consumer Federation of America. He feels, however, that many people have not moved away from cable despite the price increases.

In response, Adelphia's Blaine said, "That's like saying that the price of a 10-pound bag of sugar goes up 5 percent each year. But the 10-pound bag we're selling now really weighs 13 pounds." As cable prices increase, new services are added, he said.

As an example, Adelphia has completed about 70 percent of a \$200 million upgrade in Palm Beach, Martin and St. Lucie counties, adding high-speed Internet service for businesses and residences, long-distance telephone service and other features.

But winning and keeping customers, especially when complicated channel packages and high monthly fees are involved, is not always easy.

Tom Kallman, who runs an insurance agency in Weston, moved from cable to satellite and back to cable again. Kallman receives a basic cable package through his homeowners association. He switched to satellite because he wanted to try

some of the movie channels and sports packages.

"I like to watch sports -- especially college football -- and movies without commercials," he said. "But I was paying close to \$80 per month and found out that if I wanted access to all the games I might want to see, it would cost \$150 or more. The cost was excessive and service was too complicated with all the different packages. So I went back to cable."

Joseph Mann can be reached at jmann@sun-sentinel.com or 954-356- 4665.

[Illustration]

Caption: WHO OFFERS WHAT? These are monthly rates for the lowest-cost service packages. Cable fees may vary according to service area. Companies frequently offer special pricing. ADELPHIA: \$43.85 for 70-plus channels, depending on service area. Company charges installation fee; set-top box required for premium packages. COMCAST: \$36.10 for 59 channels, depending on service area. Company charges installation fee; set-top box normally required. DIRECTV: \$38.99 for more than 115 channels, including local stations. any fee for dish? DISH NETWORK: \$24.99 per month for 50 channels or \$33.99 for 100 channels, plus \$5.99 a month for local channels.

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Companies: Adelphia Communications Corp(Ticker:ADLAC, NAICS: 513220, 513310, Sic:4841, Duns:06-365-2341) , AT&T Broadband, DirecTv (NAICS: 513220, Sic:4841, 4899) , Palm Beach County and Comcast Corp

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THE DISH ON PICKING CABLE, SATELLITE

CONSIDER OPTIONS AS COMPANIES VIE FOR SPACE IN YOUR LIVING ROOM

LANGSTON WERTZ JR., STAFF WRITER

When Jennifer Ahlers moved to Huntersville from Charlotte a few months ago, she bought a new wide-screen high-definition television and pulled the plug on her digital **cable** service.

"I was never really happy with (**cable**)," said Ahlers, a consumer rights lawyer with the McIntosh Law Firm. "It was always going out."

Ahlers faced a decision thousands of customers in the Charlotte area confront every day: **cable** or satellite? In a marketing struggle that mirrors a larger national clash, Time Warner **Cable**, the area's largest **cable** provider, is locking horns with television satellite-**dish** providers **Dish** Network and DirecTV.

And the battlefield is your living room.

Time Warner **Cable** and **Dish** Network, for example, are promoting three free months of service in their Carolinas service areas. For consumers, the onslaught of marketing messages and exposure to the newer technologies can be confusing.

Digital **cable** and minisatellite services transmit images and sound through a series of 1's and 0's, the binary language of computers. Conventional analog television renders a picture into rows of individual dots, or pixels. The problem with analog is that you lose some picture quality by the time your television organizes the pixels. Digital signals are perfect copies of the original, delivering crystal-clear video with hi-fi sound. Think VHS vs. DVD.

Digital **cable** service, however, also carries analog signals in the mix. FCC rules call for **cable**

companies to carry analog signals when available. This means local channels via **cable** are not digitally delivered and sometimes can appear grainy.

Digital **cable** and satellite providers offer similar services at similar prices. Differences manifest themselves in specific options.

Want a TiVo-brand personal video recorder that can record shows based on your viewing preferences or capture every show with your favorite actor automatically? DirecTV might be the better way to go.

Want a discount on your high-speed Internet bill and more movie channels? Consider **cable**.

Each service has advantages. **Cable** offers a localized Weather Channel and a 24-hour news channel you can't get on satellite, plus a new service called I-Control that allows viewers to choose programs on demand from a variety of providers, including HBO.

Dish and DirecTV also have exclusive channels. DirecTV has sole rights to one of the most sought-after contracts in the industry: an out-of-market NFL premium package that allows viewers to see up to 13 games per week.

The satellite companies first offered digital delivery of pictures and sound, plus hundreds of channel choices, in the mid-'90s. The systems gained traction in the South, a satellite stronghold. **Cable** companies launched their nationwide digital rollouts a few years later.

North Carolina had 734,003 satellite subscribers as of April 1, or 19.3 percent of the population, well ahead of the national average of 16.6 percent, according to Sky Report, an industry trade publication. North Carolina ranks in the top 10 nationally for **dish** penetration.

South Carolina had 337,073 satellite subscribers as of April 1, or 18.5 percent of the population, the publication said.

In contrast, North Carolina has about 1.8 million **cable** television subscribers, according to the N.C. **Cable** Telecommunications Association. South Carolina has about 980,000 **cable** subscribers, according to the S.C. **Cable** TV Association.

In Charlotte, Time Warner **Cable** launched its digital **cable** service in the fall of 1999. The company aggressively targets satellite subscribers. Time Warner employees visit neighborhoods and offer customers with satellite **dishes** \$100 for their **dish** and a discount on initial months' **cable** service if they switch.

Time Warner wooed 15,000 area satellite customers last year, said spokeswoman Sue Breckenridge.

Often, a customer can put together a suite of satellite services that will be cheaper than comparable **cable** service. To battle that, Time Warner tries to bundle its services at a discount. A **cable** customer pays about \$10 less per month for high-speed Internet through Time Warner.

Later this year, Time Warner will launch local phone service and recently introduced a personal video recorder service, similar to TiVo. Local car salesman Rodney Alexander is one of the area customers that Time Warner has won back.

He started with satellite six years ago because of increased choice and lower prices. He went back to **cable** when Time Warner offered its digital services after comparing prices.

But with satellite, Alexander was paying a \$20 surcharge to run additional converter boxes in his four bedrooms. With **cable**, he can run basic - mainly network affiliates and independent channels - to those bedrooms for free and have full-service digital boxes in the places he wants

them.

"It's simple for me," said Alexander, who sells cars and sport utility vehicles at Diamond Chevrolet/Isuzu. "I was paying \$5 each to put satellite boxes in four bedrooms. I didn't need all that in my two daughters' rooms. I just needed to throw up basic programming. Plus, for me, my satellite service went out a lot if it rained."

But his fealty is not ironclad.

"I think I could go back to satellite," Alexander said. "For me, it's just a matter of money. The services are so similar. So right now, I'm all about who's going to give me the best deal."

*

Langston Wertz Jr.: (704) 358-5133; lwertz@charlotteobserver.com

OUR 6-WEEK STUDY: HOW THEY STACK UP Reliability

Cable has always touted its reliability and said in advertising that satellite suffered from "rain fade," meaning when it rained hard, your satellite picture would disappear.

"Rain fade is utter nonsense," said Chip Player, chief executive of Queen City TV and Appliance, one of the largest DirecTV dealers in the Charlotte area. DirecTV and **Dish** Network are the major satellite companies operating in the Charlotte area.

"What they're trying to allude to is, in a torrential downpour in April or May, DirecTV may drop out. But once rain lightens, it comes back. When I had **cable**, it would go out for days."

In this case, we'd agree with Player. In our tests, through some tough weather, DirecTV never went out. **Cable** did drop out during the middle of an NBA basketball game and stayed out for a day.

Overall, we had little problem with either service. Both have 24-hour customer service lines to help troubleshoot problems, though **cable** will send a repairman free to the house, if needed.

Advantage: Even.

*

Cost

Both companies are continually offering programming package deals to lower prices for the first three months. **Cable** doesn't ask for long-term commitments, while DirecTV does, in some Plus, with high definition television, **cable** gives you the converter box. DirecTV makes you pay about \$600 for one (though you may be able to get a bill credit for a portion of your purchase if you complain to customer retention). And cost is a big issue with consumers.

Advantage: **Cable**.

*

Availability

In most areas in Charlotte, you can get digital **cable** service. You cannot always get DirecTV. To get the minidish, you must have a clear view of the southern sky.

"Less than 1 percent of our customers have that issue," said Queen City's Player. "We call it 'Tree'd out.' "

Some installers will go to great lengths to try to attach a **dish** on your home, which can create ugly sight lines in a neighborhood. For the most part, customers will not have a problem.

Advantage: **Cable**.

*

Programming

Do you want 14 HBOs or just 10? Bottom line is, either service can allow you to see Britney Spears act badly in "Crossroads" as many times as you care to watch.

Time Warner offers some specialty local channels, including a 24-hour news channel. And you can't get local weather on The Weather Channel over satellite (which can be annoying).

But DirecTV offers better pay-per-view options and the NBA TV channel, which offers special NBA games and high definition content. DirecTV also airs a 24-hour HD channel, HD Net, and has an exclusive contract for the NFL Sunday Ticket, all of which **cable** can't give you.

Advantage: Satellite.

*

Picture quality

Everything on satellite is delivered digitally, so you get no snow or ghosting. Everything on digital **cable** is not digital.

"I hear a lot of customers complain that satellite is all digital and we're not, and that's true," said Ron Wright, director of transmission systems of Time Warner. "You have to understand, the FCC mandates we have to carry the analog signals until it goes away. But we'd love to be all digital."

For now, though, **cable** is not, and the basic tier channels can look awful fuzzy sometimes.

Advantage: Satellite.

*

HDTV / digital

Both services offer HDTV channels from Showtime and HBO. **Cable** adds local digital offerings from WSOC (ABC), WBTB (CBS), WCNC (NBC), WTVI (PBS) and UNC-TV.

Charlotte-area viewers can receive those local channels over the air, plus digital offerings from WCCB (Fox), WJZY (UPN), WAXN (Independent) and WFVT (UPN), which carries a high-definition feed all day from Marc Cuban's HD Net network. All you need is an antenna connected to your digital receiver.

DirecTV viewers can receive another HD Net station, plus NBA TV's hi-def programming and NFL HDTV games coming this fall from its NFL Sunday Ticket package. DirecTV is also expected to sign a deal to carry ESPN-HD. Time Warner is in negotiations, local spokeswoman Sue Breckenridge said.

Bottom line? It's nice that **cable** carries some of the digital stations, but until it carries all of them, the advantage still is to install a cheap antenna. DirecTV's box can integrate the over-the-air signals and satellite signals in one box. It's a neat thing when it's set up.

Advantage: Satellite.

*

Hardware

In the old days, **cable** had a huge advantage, because it gave you converter boxes free. And for HDTV, it still does. This is satellite's biggest drawback in the emerging technology: price of entry.

HDTV is cheaper to get on **cable** because you don't have to pay up to \$600 for an HDTV converter box as you do with DirecTV. On another hardware front, Time Warner introduced a personal video recorder recently, but it doesn't have the feature set of DirecTV's PVR. DirecTV has the TV industry's ultimate toy, the TiVo PVR. It combines a PVR with a DirecTV receiver in one box allowing the unit to directly record the DirecTV bitstream, making letter-perfect recordings. A HD TiVo is expected later this year.

"TiVo is God's machine," FCC Chairman Michael Powell said during a public appearance at this year's Consumer Electronics Show in Las Vegas.

The current model allows you to record two programs at once, if installed with two separate satellite lines feeding it. TiVo technology allows you to create "season passes" for your favorite shows, so the unit will record them whenever they come on for however long they air.

Time Warner's PVRs have some similar features, but once you've gone to the integrated TiVo unit, it's hard to go back. You can connect a regular TiVo unit to your **cable** box, but it loses some functionality, especially the ability to record two things at once. It's a shame **cable** customers can't get an integrated TiVo, though it's good they have a PVR. All in all, TiVo is the heavyweight champ and a huge draw for DirecTV.

Advantage: Satellite

Illustration:PHOTO:2

1. JOHN D. SIMMONS - STAFF PHOTO. Time Warner's David Krueger installs a personal video recorder unit. Krueger says that in the four months the company has offered the PVR, 1,600 units have been installed in homes.; 2. TODD SUMLIN - STAFF PHOTO. David Stokes installs a DirecTV satellite **dish** atop a home in south Charlotte. To get the minidish, a home must have a clear view of the southern sky.

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St. Petersburg Times

Dishing it out Series: COVER STORY:[SOUTH PINELLAS

LOUIS HAU. **St. Petersburg Times**. St. Petersburg, Fla.: Nov 11, 2002. pg. 8.E

Abstract (Article Summary)

The ambitions of DirecTV and Dish Network, the two leading satellite providers, have grown along with their subscriber numbers. General Motors Corp.'s Hughes Electronics unit, which owns DirecTV, and EchoStar Communications Corp., which owns Dish, announced at the end of last year that they planned to merge.

For [Mike Tobias], it all came down to programming and price. Tobias, who works at St. Petersburg's Stone Soup Cafe, just made the signup deadline for DirecTV's exclusive NFL Sunday Ticket package, which broadcasts multiple pro football games every Sunday for \$179 a season. Plus, DirecTV threw in four free months of one of its premium programming packages.

A television screen's picture is marred by a wavy picture. (ran COVER); Tim Burke, a DirecTV satellite technician for five years, works to install a portion of a dish at the home of Mike Tobias and Kristy Hubert in St. Petersburg.; A DirecTV; satellite dish is mounted on the roof of a home.; Photo: PHOTO ILLUSTRATION, Michael G. Cothran; PHOTO, Dirk Shadd

Full Text (1378 words)

Copyright Times Publishing Co. Nov 11, 2002

After several years of hearing his brother and nephew rave about their satellite TV connections, Mike Tobias of St. Petersburg gave in last month and got his own satellite dish.

The 54-year-old Detroit native says he dropped Time Warner Cable in favor of DirecTV so he could follow his beloved Motor City sports teams, the Lions, the Red Wings and the Tigers.

Until now, he had to go to a local sports bar to catch their games.

"The cost of sitting in that sports bar for four to five hours will pay the satellite bill," Tobias says.

A decade ago, satellite TV wasn't all that appealing for average consumers. The dishes were huge and unsightly, you needed a good set of rabbit ears or a rooftop antenna to pull in local channels, and the monthly service fees were sky-high.

Now most dishes are just 18 inches across, local broadcast channels are available by satellite in many major TV markets (including the Tampa Bay area) and service fees have fallen to the cost of cable, if not lower.

"When they just came out, the customers were more the high-end audio-video guys," says Ken Dreksler, senior manager at the RadioShack at Northeast Shopping Center in St. Petersburg, which sells both DirecTV and Dish Network satellite services. "Now you get a more mainstream crowd. The prices have trickled down to the point where it's actually an alternative to cable."

Cable remains king. Companies such as Time Warner Cable, the bay area's leading provider, continue to dominate the pay-TV market. (And in parts of Pinellas County, Time Warner faces direct competition from Verizon's much smaller Americast cable system.)

But satellite providers have been making an impressive grab for market share.

Satellite subscribers are now 22.5 percent of the combined nationwide market for cable and satellite, up from 16.3 percent at the end of 1999, according to Kagan World Media, a market research firm in Carmel, Calif. Kagan's numbers include satellite subscribers who also subscribe to cable to get local channels.

In Florida, the growth has been similarly impressive. According to figures compiled by SkyReport, a publisher of research about the satellite industry, the Sunshine State had 6.47-million cable and satellite subscribers in July, and 23 percent were satellite subscribers. That's up sharply from 13 percent in July 1999.

After years of snatching up customers in rural areas where cable isn't readily available, satellite providers are now focusing more of their energies on urban and suburban areas where they have to go head to head with the cable giants.

In the latest installment of its nationwide TV ad campaign, DirecTV is running a cheeky commercial that features a cable company employee nervously asking the guy installing a satellite dish at his home to park his van out back.

"These companies are gaining cable's best customers, the kind who buy HBO and Showtime," says SkyReport editor Michael Hopkins. "They're not just taking away cable customers but cable customers who are spending a lot of money."

Clearly feeling the competition, Time Warner is running commercials that emphasize its video-on-demand features as something satellite can't offer.

The narrowing gap in pricing between cable and satellite services in recent years has stemmed not just from a drop in satellite services but from a continued rise in cable rates. According to the Federal Communications Commission, the average monthly rate for cable programming services and equipment increased 7.5 percent in the 12-month period ended July 2001, the most recent period for which statistics are available, far outstripping the 2.7 percent rise in the consumer price index during the same period.

But there are signs that cable providers are beginning to respond to the satellite price challenge. Charter Communications, the nation's fourth-largest cable operator, recently said it will freeze its cable rates in the St. Louis area until February 2004.

Closer to home, sales representatives for Time Warner Cable have been spotted locally going door to door to homes that have satellite dishes, tempting residents with special cut-rate cable deals well below Time Warner's regular rates.

But price isn't the only area of competition. In a survey released in September by J.D. Power and Associates, DirecTV and Dish Network had the highest residential customer satisfaction rates among all pay-TV providers, based on cost of service, billing, program offerings, equipment and service capabilities, customer service and reception quality.

"While the study shows the average expenditure for both (cable and satellite) is now nearly equal, more consumers are electing to switch services to satellite TV providers," said J.D. Power senior director of

telecommunications Steve Kirkeby.

The ambitions of DirecTV and Dish Network, the two leading satellite providers, have grown along with their subscriber numbers. General Motors Corp.'s Hughes Electronics unit, which owns DirecTV, and EchoStar Communications Corp., which owns Dish, announced at the end of last year that they planned to merge.

They argued that a combined company would be good for consumers because it would eliminate duplicative programming and open up more satellite capacity for improved picture and sound quality.

But the FCC last month rejected Hughes' and EchoStar's merger application, arguing that it would be anticompetitive. The two sides have until later this month to submit an amended application that addresses the FCC's concerns.

In an interesting twist, consumer advocacy groups, which normally oppose big media mergers, support the DirecTV-Dish merger. Gene Kimmelman, Consumers Union's senior director for public policy and advocacy, said in a statement on the FCC ruling, "Cable companies have a monopolistic grip on the vast majority of communities in America," and the merger would help make satellite TV providers more competitive.

That Kimmelman attended the same high school in Oak Ridge, Tenn., as EchoStar chairman and chief executive Charlie Ergen has been a source of grumbling in the cable industry about the consumer advocate's motives. But Consumers Union dismisses such talk as baseless.

Even if a revamped version of the satellite merger eventually wins approval, cable operators have trump cards to play. They can typically offer high-speed Internet services at much lower cost than satellite companies. And the cable companies eventually may offer telephone service as well.

"The technology is there, and there may be a market for that in the future - video, data and voice over one line," says Jason LaMountain, a senior communications consultant for Taylor Research & Consulting Group in Brownfield, Maine.

Furthermore, market watchers say, the rapid growth of satellite in recent years is likely to slow because satellite providers have already picked the easily reached "low-hanging fruit" of rural residents and disgruntled cable customers.

"That doesn't necessarily mean they're not still signing them up, but clearly it's not as easy as it had been before," SkyReport's Hopkins says.

There's also the community-based presence cable companies have, which satellite providers do not. Time Warner Cable, for instance, operates exclusive round-the-clock local news channels in eight major TV markets, including the Tampa Bay area's Bay News Nine. Time Warner Tampa Bay also provides free cable connections to all local schools in the company's service areas and sponsors a literacy mentoring program.

"We're literally living, breathing, supporting the local community," says Time Warner Tampa Bay spokeswoman Linda Chambers.

But for Mike Tobias, it all came down to programming and price. Tobias, who works at St. Petersburg's Stone Soup Cafe, just made the signup deadline for DirecTV's exclusive NFL Sunday Ticket package, which broadcasts multiple pro football games every Sunday for \$179 a season. Plus, DirecTV threw in four free months of one of its premium programming packages.

Still, Tobias says his allegiance to satellite isn't set in stone, noting that DirecTV's exclusive rights to NFL Sunday Ticket won't last forever.

"I think it will really make it a competitive situation," he says. "When everybody has it, I may switch back to cable if they gave me the best deal."

- Louis Hau can be reached at hau@sptimes.com or (813) 226-3404.

[Illustration]

Caption: A television screen's picture is marred by a wavy picture. (ran COVER); Tim Burke, a DirecTV satellite technician for five years, works to install a portion of a dish at the home of Mike Tobias and Kristy Hubert in St. Petersburg.; A DirecTV; satellite dish is mounted on the roof of a home.; Photo: PHOTO ILLUSTRATION, Michael G. Cothran; PHOTO, Dirk Shadd

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Companies:	DirecTv (NAICS: 513220, Sic:4841, 4899) , EchoStar Communications Corp (Ticker:DISH, NAICS: 513340, Sic:6719, 4841) , Federal Communications Commission (NAICS: 926130, Duns:02-030-9969) , Time Warner Cable (NAICS: 513210, 514191, Sic:4841)
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Jeff Childers installs a Dish Network antenna for Premier Satellite in Indianapolis. From June 2001 to June 2002, the number of satellite households grew from 16 million to 18 million, according to the FCC. -- Rob Goebel / staff photo

DBS

Satellite TV gains cable converts

2 technologies duke it out for subscribers; both have strengths

By Jack Naudi

jack.naudi@indystar.com

January 19, 2003

Starting 22,000 miles above the Earth and moving down to almost every neighborhood, a battle is being waged for the hearts, minds and entertainment dollars of American households.

The war pits the entrenched cable television industry against upstart satellite programmers, and the satellites are swiftly gaining ground, including in Indianapolis.

In its ninth annual report on competition in the video market, the Federal Communications Commission said this month that of all households receiving multichannel television services (such as the Disney Channel, TNT or ESPN), one in five uses a satellite dish. In 1999, the figure was less than one in 10.

Comcast Cable reports that in the portion of the Indianapolis area it covers, 15 percent of households now receive satellite programming.

Time Warner Cable, which covers the center of the city and some outlying areas, won't reveal exact statistics, but it says satellite's penetration is in the low double-digits.

Amid the increasing competition, at least one cable executive downplayed the gains by satellite.

"When you start from a zero base, you're always going to grow," said Buzz Nesbit, president of Time Warner's Indianapolis division.

Even so, the cable companies are pulling out their big guns to counter the threat. In Indianapolis, Comcast offers satellite customers up to \$100 to remove their dishes, along with deeply discounted rates on cable service. In 2002, Comcast bought 2,876 dishes locally, said Mark Apple, Comcast's director of government

and community relations for Indianapolis.

"We want to get rid of that equipment," Apple said. "It is advertising for them. (Potential customers) have a constant reminder that satellite is available."

For most consumers, the battle for market share is being played out via television and print advertising.

Comcast customers in Indianapolis, for example, are treated to a barrage of pro-satellite ads that tout the wide variety of low-cost features and the multitude of channels. Those frequently are followed by anti-satellite spots from Comcast that question the quality of satellite in bad weather and harp on pricey satellite add-ons.

Advocates in both industries, however, don't believe consumers are getting the message about their products and services.

"The biggest thing I think needs to be done, and I wish our company could do it, is to run TV spots themselves," said Bill Stevens, who co-owns Simply Satellites, a subsidiary of Hoover, Ala.-based Satellites Unlimited.

"Cable television -- and we have done it to ourselves -- is one of the great untold stories in video and home entertainment and high-speed data in the country," Nesbit said. "We find that it's impossible to advertise in local markets the same way the dish folks are able to advertise nationally."

Comcast and the other cable providers also are competing against a network of formidable foes that uses different marketing and sales strategies.

In order to get cable service, a customer typically will pick up the phone and call the local monopoly cable company.

With satellite, however, consumers have a choice of two national satellite program providers, DirecTV and Dish Network. Typically, the services of either company -- along with satellite dishes -- can be purchased at major electronics retailers such as Best Buy or Circuit City.

In addition, several dozen small local companies sell and install dishes. Most are indifferent about which satellite service consumers should buy, and they sell both. But these mom-and-pop operations are satellite disciples, preaching the wonders of the dish.

SATELLITE'S ADVANTAGES

"I can't imagine anybody on cable," said Jeff Swenke, owner of Premier Satellite in Indianapolis. "There's no advantage. Satellite has a digital picture. Satellite has everything cable has at a lesser price."

Those advantages, however, aren't nearly as pronounced as they once were. In general, customers of satellite and cable pay roughly the same rates for comparable levels of service. And virtually any cable customer can receive the same high-quality digital transmission that had given satellite a quality advantage.

Despite that, satellite converts are coming in the millions. From June 2001 to June 2002, the number of satellite households grew from 16 million to 18 million, according to the FCC. DirecTV has 11 million customers.

Fed up with a seemingly endless rise in cable bills, Celeste English of Indianapolis made the switch several years ago from Comcast to Dish Network.

English has no quarrel with Comcast's pricing, customer service or picture quality. The switch, in many ways, was made because she tired of doing business with a monopoly.

"You don't have a choice about who your cable company is," she said. "Comcast and Time Warner have a monopoly, and they think they can do whatever they want."

English, who pays about \$65 a month for her service, said the satellite dish expands her choices. She can move to DirecTV, or she can switch to cable and then move back to satellite service again.

"I just can't say enough about how happy I am with it," she said.

"People like the independence from cable," said Melinda Pagel, owner of Earth Stations Unlimited, a satellite installer in Indianapolis. "It makes them feel good to know they're out from under the thumb of a big cable company."

The cable companies are quick to point out that with satellite companies in the picture, they are, in effect, no longer a monopoly; nonetheless, they pay a heavy monopoly-type price to local governments.

Both Comcast and Time Warner pay municipal franchise fees of up to 5 percent of gross revenue. In 2002, Comcast paid \$4.4 million in franchise fees to the city of Indianapolis. Time Warner paid \$2.1 million.

Because satellite companies don't have to dig up roads and yards to install cable, they don't pay franchise fees.

"That is an advantage (for the satellite companies)," Apple said. "There's not much we can do about that. . . . It's significant."

SATELLITE'S DISADVANTAGES

The satellite companies have a significant cost of their own. On average, they pay \$400 to \$500 for each new subscriber, about double what cable companies pay, said Laura Behrens, a research analyst with Gartner G2, a business research firm. Most of that cost comes from giving away satellites and returning a share of new subscriber revenues to retailers.

While most cable companies are profitable, the satellite companies have struggled. Dish Network's parent company, EchoStar Communications, lost \$228 million in the first nine months of 2002, despite a 23 percent increase in revenue. As a result, Dish Network announced that it will increase rates an average of 4 percent in February, or about \$2 per customer.

The future for Dish Network and the others, Behrens said, depends on how they differentiate themselves.

"It will come down to what is the quality and mix of the content, and is it packaged in a way that makes it easy and desirable for the consumer to buy?" Behrens said.

"Any product that we offer that satellite can't is an advantage," Comcast's Apple said.

Indeed, the cable companies have invested in fiber optics and other system upgrades that will expand cable's reach into homes. One example of that is high-speed Internet access, something the satellite companies have yet to perfect.

Time Warner charges \$44.95 per month for high-speed cable, while Comcast charges \$39.95.

"Our high-speed data offering is more well-received and has created more excitement than the excitement of HBO (being offered) in the late '70s," Nesbit said. "It is a phenomenon that has created a whole different way to use the Internet."

The satellite companies, however, are responding with two-way transmissions that are expected to boost pay-per-view revenue. Ultimately, the satellite companies are hopeful they can improve their slower, more expensive Internet connections to match cable. And both Dish Network and DirecTV offer digital recording devices, like TiVo, that allow customers to record shows and watch them later.

Gartner G2 doesn't see a clear-cut winner between cable and satellite. The firm predicts that by 2007 satellite penetration will rise to about 23 percent of American homes, while cable will hold steady at about 65 percent.

"They serve different needs," she said. "There are some things that each of them does that the other one can't."

Call Star reporter Jack Naudi at 1-317-444-6475.

Cable or satellite?

The rivalry heats up

CHRIS SEFER
Plain Dealer Reporter

Take your pick from the buffet menu that is modern paid TV.

On one page is satellite, with a main course of high-definition television, personal video recorders and enough sporting events to satisfy even the Armchair Gold Medalist of the Barcelona Olympics.

On the other page is cable, slathering service throughout the house with movies whenever you'd like and cheap access to high-speed Internet.

These frills may matter the most when choosing between cable or satellite television. Both services are racing to embrace new technologies that can attract customers and creating products that can please certain crowds.

The competition between the two services has only recently blossomed into a full-blown rivalry, as satellite has started to snap up big-spending television fanatics who used to choose cable, said Josh Bernoff, an analyst with Forrester Research Inc.

As a result, cable is rolling out new features to counter satellite services, while both are offering new deals, bundling new services and creating two distinct products.

Satellite providers offer a personal video recorder, which can pause live television and more easily record shows.

Cable, meanwhile, has countered with television-on-demand features that let subscribers watch movies and some shows any time they want.

Satellite, whose picture quality already is superior to cable, has been more aggressive in offering high-definition television, or HDTV.

But cable companies are beginning to offer HDTV, too. In the long run, cable will be able to provide a greater selection of HDTV stations because satellite providers can't beam large swaths of high-definition television on their networks, Bernoff said.

SEE TV | E1

There are a few services the two sides haven't been able to counter. Satellite offers sports fanatics favorites like NFL Sunday

Ticket, which provides access to nearly every professional football game each Sunday.

"I think the [National Football League] package is a little bit of

the reason they are doing well," said Kirk Zerkle, area manager for Wide Open West cable. "We can't offer that at this time."

But cable is able to include a lower-cost high-speed Internet connection along with its broadcast service. While satellite companies have experimented with teaming up with an Internet service provider to offer high-speed Internet, that doesn't offer the convenience of cable Internet, Bernoff said.

Cable continues to offer local channels for free, while satellite subscribers regularly have to pay for their local ABC, NBC, Fox and CBS affiliates.

Satellite is starting to include local channels without a fee.

Satellite's biggest help may be its ferocious advertising campaigns that pounce on any increases in cable rates. Plus, Dish Network even guarantees certain prices for several years.

"In the beginning, people weren't real sure about satellite," Jade Valine, a spokeswoman for DirecTV, said. "They saw cable as a utility. You'd turn on the electric, water and call the cable guy. But I think people are starting to realize [satellite] is just as easy and affordable as cable is."

But all these frills won't matter as much if a company can't meet the fundamentals most television watchers crave: good customer service, a diverse selection of channels and a good signal.

Customer service and quality of signal, critical for many, depend on where you live.

Every company now has niche channels like Home and Garden

Television, Discovery and E! Entertainment Television that viewers demand, though there are subtle differences in the basic packages offered by the services.

Geography can be a television service's worst enemy. A handful of trees or some bad weather can hamper satellite service, but cable links, particularly in far-flung rural areas, may also sputter out a grainy signal.

"In urban settings, cable has a huge advantage," Bernoff said. "But in rural settings, cable service tends to be a much lower quality."

Both cable and satellite services are gearing up for the high-tech future of television that will push the limits of their capability.

Dish Network, for example, plans to sell a high-definition video recorder that should be out by the end of the year. TiVo, which works with DirecTV, is also working on an HDTV recorder.

Cable television continues to experiment with both HDTV and video-on-demand, believing that expanding a service that lets customers watch television shows at any time will be unbeatable.

"Every year we look out and say two years from now satellite service will level off and start dropping," Bernoff said.

"But two years go by and it doesn't happen. The reason that has been is that the cable industry has been behaving as if it does not have competitors. But with basic subscribers in decline, that's changing."

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HEADLINE: Satellite TV Gains While Cable Stumbles; Better Service Part Of Satellite's Appeal; Fighting For Same Customers**BYLINE:** BY REINHARDT KRAUSE**BODY:**

In the pay TV market, when **satellite** broadcasters gain subscribers, cable rivals lose.

Satellite TV firm EchoStar Corp. said Wednesday it added 270,000 net subscribers in the second quarter, which ended June 30.

The 10 biggest cable firms lost a total of 130,647 customers in the same period, says Leichtman Research Group.

"In the pay-TV business, we actually got in this quarter more subscribers than everybody else combined, since the cable industry was primarily negative," EchoStar Chief Executive Charlie Ergen told analysts in a conference call.

EchoStar's **satellite** rival, DirecTV, added 181,000 subscribers in the second quarter.

EchoStar and DirecTV grew for years by targeting mostly rural markets that lacked cable services. Heading into 2003, though, about 80% of U.S. households subscribed to pay TV from either cable or **satellite** firms.

"The market for multichannel video is more saturated than it was five years ago," said Leichtman Research Group head Bruce Leichtman. "Today there's less growth for the industry, so the impact of (direct broadcast **satellite**) is becoming more visible."

Hitting Where It Hurts

As a result, cable and **satellite** firms are increasingly fighting over the same customer, analysts say. And **satellite** firms are gaining market share.

Satellite still only has about 20% of the pay-TV market. But subscriber ranks have grown rapidly since 1994, when only 65,000 U.S. homes had **satellite** TV.

Cable firms Cox, Charter, Adelphia, Mediacom, Insight and CableOne lost net subscribers in the second quarter, he says.

Mediacom told analysts it expects its basic subscriber numbers to drop by 2% in 2003.

Satellite companies are taking advantage of cable's weaknesses.

DirecTV and EchoStar are targeting markets where cable firms have recently raised prices, as well as markets in which smaller cable companies haven't yet upgraded networks for digital services.

While the cable industry has ponied up about \$75 billion on network upgrades since 1996, that spending targeted densely populated areas.

Many small-market subscribers still can't get Internet access via cable. Systems that haven't been upgraded also provide fewer channels than **satellite**, says Leichtman.

And most small cable firms are in no position to offer ultrasharp pictures via high-definition TV, analysts say.

Both EchoStar and DirecTV have increased the number of HD channels they offer.

Cable firms typically blamed seasonal factors for poor second-quarter subscriber numbers. But industrywide, the number of basic subscribers grew only 1.2% in 2000 and 0.1% in 2001. Numbers fell 1.8% last year, says Morgan Stanley.

Satellite Ascending

Charter and AT&T Broadband — since acquired by Comcast — bled subscribers last year, analysts say.

Researcher Yankee Group, meanwhile, estimates that the number of U.S. households with DBS service will climb to 27.1 million by 2007 from 20.7 million in 2003.

With 11.2 million subscribers, DirecTV is the second-biggest pay-TV firm behind Comcast. EchoStar weighs in at No. 4 with 8.8 million.

At the end of 2002, there were about 64 million basic cable subscribers. Growth has flattened, and analysts don't expect that number to increase.

Act Locally

Direct broadcast **satellite** began as a national service, offering the same programming throughout the U.S. DirecTV and EchoStar didn't carry local channels until last year.

By year-end, EchoStar expects to beam local channels to about 100 markets, up from 61 currently.

Many of these second tier markets, such as Huntsville, Ala.; Youngstown, Ohio; or Bakersfield, Calif., lack digital cable and cable Internet service, says a Bear Stearns report.

"The rollout of local channels is a near-term growth driver for **satellite**," says Bear Stearns analyst Robert Peck.

Even at large cable firms, "subscriber growth has been less than 1% a year," said Tom Watts, analyst at SG Cowen.

"Cable operators have focused on raising prices and adding new services, but **satellite** sells a great video product, usually at a discount to cable," he said.

The Federal Communications Commission says average monthly cable fees rose 8.2% to \$40.11 over the 12-month period ending July 1, 2002.

Satellite TV prices also climbed the last two years but at a slower rate, analysts say.

One consumer group Tuesday called on lawmakers to crack down on the cable industry. The U.S. Public Interest Group says Congress should give state regulators the power to oversee cable rates.

DSL Rates Slashed

The Telecommunications Act of 1996 deregulated cable rates. USPIRG says cable prices have climbed more than 50% since then.

But cable firms need to generate free cash flow to pay back billions of dollars in debt they took on to upgrade their systems.

While cable firms have apparently been willing to risk market share in the pay-TV market by raising prices, it remains to be seen if they'll use the same strategy when it comes to Internet access, analysts say.

Nearly twice as many U.S. households use cable modems as DSL for broadband access.

But phone companies, which sell DSL service, cut Internet prices in the first half of this year.

Other telecom moves may help **satellite**. Phone companies are increasingly looking at bundling their service with **satellite** TV. SBC and EchoStar said last month they would jointly offer TV service to consumers. Other telecoms may follow suit.

UBS Investment Research analyst John Hodulik says cable modem price cuts are unlikely this year.

"Cable operators' historical strategy has been to retain margin, cash flow and price stability at the expense of unit

growth, video being an example," he said.

EchoStar stock dropped 5% Wednesday, closing at 34.27, as the firm failed to meet Wall Street's most optimistic outlook for subscriber growth.

Analysts' forecasts had called for new subscribers numbers falling between 250,000 and 300,000.

LOAD-DATE: August 14, 2003

FEATURE REPORT

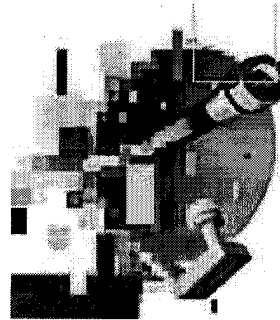
March 2003

Cable or satellite?

If you want more channels or better quality than you get now, digital cable or satellite may be the answer.

As you've probably gleaned from TV commercials and the offers flooding your mailbox, the cable and satellite companies are pushing services that promise a broad selection of programming plus enhanced picture and sound quality. So even if you're not in the market for a new TV set, you may be mulling over a new service provider.

There are three ways to get TV signals into your home: an off-air antenna, cable, and satellite. Most households currently subscribe to cable, but satellite continues to gain ground. Antennas, the least common choice, are often used to supplement satellite or cable.



Your biggest decision is whether to go with cable or satellite, but the choices don't stop there. You may have other options, including high-definition (HD) programming, video-on-demand (VOD), interactive TV, and digital recording. (See [A menu of choices: HD and more](#).)

Choosing among such services isn't trivial, considering that monthly charges can easily approach \$100. Here's a look at the latest offerings to help you decide which is best for you.

ANTENNA: CHEAPEST CHOICE

What it offers. Limited programming, with none of the premium channels you can get via cable or satellite. Don't expect top-quality reception unless you're close to the TV stations' transmitters. You may also be able to get HD broadcasts if you live close enough to a station broadcasting in HD. However, if the signal is too weak, you'll get no picture at all. HD is available off-air (much of the CBS and ABC primetime lineup is now HD, and NBC is adding to its offerings), but you can get it only if your local network affiliates broadcast digitally.

What you need. You should be able to receive off-air signals with a roof antenna. To get HD programming, you must have a TV capable of displaying HD and an HD tuner built in to the set or in a separate set-top box.

What it costs. Off-air programming, even HD, is free.

Comments. Once the standard, antenna reception has fallen from favor. It's now enjoying a renaissance because it can offer local stations to satellite subscribers who otherwise can't get them and, in many areas, free digital programming, including HD.

ANALOG CABLE: A STEP UP

What it offers. Usually better, and more consistent, quality than you'll get with an antenna, but quality still varies by station. A wide variety of programming, including premium channels such as HBO and Showtime.

- [Nuts & bolts of satellite TV](#)
- [A menu of choices: HD and more](#)
- [Hooking up your TV](#)

What you need. A cable box is necessary to view premium (scrambled) channels. Some cable companies require that you rent a box even for basic packages; otherwise, you can plug the cable directly into most TVs. When a box is required, you need one for each TV.

What it costs. Basic packages with local stations and a few cable channels run about \$8 to \$15 a month. A midrange "family package" with about 50 cable channels costs \$30 to \$40. You can add individual premium channels for \$10 or so apiece. High-end packages with 75 or more channels, including premium channels, cost \$60 to \$80 or more a month.

Comments. Spiraling costs are a chronic complaint from cable subscribers. Rates have risen 45 percent since 1996. Unfortunately, most viewers can't switch to another cable provider. In most areas, there's only one company offering service. Where there is competition between cable companies, prices tend to be lower.

DIGITAL CABLE: QUALITY, CHOICE

What it offers. Improved picture and sound quality. Up to 200 or so channels, with extensive movie and sports programming (much of it not available on analog cable at any price) and commercial-free music.

Don't confuse digital with HD. All digital content is not high definition; some of it is standard definition. HD programming is often available on HBO, Discovery, and Showtime. You may get some HD broadcasts from ABC, CBS, NBC, and other networks, but much of it may not be transmitted in true HD by your cable company. Ask your company what it offers, and be specific and persistent. Even company personnel may be confused about what's actually available in HD.

Other pluses: Interactive program guides allow improved navigation of channels. Some programs have Dolby Digital audio, which provides multichannel sound if you have the appropriate audio setup.

What you need. Digital cable is now available in almost all areas. You have to rent a digital cable box for each TV from the cable company. For HD programming, you need a special HD cable box and an HD-ready TV. Within the next year or so, you may be able to get digital broadcasts, including HD, by plugging the cable directly into the TV rather than into an external box.

What it costs. Digital cable adds about \$10 to \$20 a month on top of standard cable costs. The separate boxes for each TV cost about \$5 a month each.

Comments. Digital cable is the only way to get video-on-demand, which lets you watch programs whenever you like.

SATELLITE: RIVALS DIGITAL CABLE

What it offers. With satellite TV, you have a choice of providers—a refreshing change for those cable subscribers limited to one cable company, which is the case in most areas. DirecTV and EchoStar's Dish Network both operate nationwide.

Like digital cable, satellite gives you picture and sound quality that's comparable to DVD plus up to 200 channels of programming, including commercial-free CD-quality music channels. Movie and sports programming is strong, with a wide range of choices. Local channels are available (at extra cost) in many but not all areas. However, satellite does not carry the community and school channels that cable must supply.

HD programming is largely limited to premium channels like HBO and Showtime. The major networks' HD programming is generally not available, but you may be able to get it using a roof antenna.

What you need. Your home must have an unobstructed "view" of the transmitting satellite, which orbits in the southern skies. A small dish is mounted outdoors, and a satellite receiver sits near your TV. To get HD, you must have an HD-ready TV, a second or larger dish, and an HD-capable satellite receiver. (See [Nuts & bolts of satellite TV](#).)

What it costs. Both DirecTV and Dish Network offer basic service packages that start at about \$25 to \$30 a month, plus \$6 for local channels where available. High-end packages run about \$75 to \$80 a month.

Figure on paying \$100 or so for a basic dish/receiver package, unless you get a promotional package offering free hardware in exchange for a year's programming commitment. A separate receiver is required for each TV that you want to tune independently.

Comments. It can be a major inconvenience if local channels are not available in your market; check carefully before choosing this option. So far, satellite costs haven't been as volatile as cable's, but there's no guarantee that they will remain so in the future.

RECOMMENDATIONS

- ▶ Off-air reception via an antenna is the only way to get TV service that is essentially free. However, it isn't likely to satisfy most viewers because of the limited programming and reception quality. An antenna can supplement cable or satellite to provide off-air local stations or HD, though.
- ▶ If you're an occasional TV watcher who's generally satisfied with the channel selection you've had for years, analog cable, with its relatively low monthly bill, may be all you need.
- ▶ If you now have analog cable but want more channels or better picture and sound quality, you can upgrade to digital cable or switch to satellite. Both offer much more choice--especially for movies, sports, and foreign-language programs--but at a higher cost than analog cable. Check availability, programming, packages, and prices in your area to see which you can get, and which suits you.
- ▶ If you want HD, digital cable or satellite are your most likely options for premium channels and some network broadcasts. With an antenna alone, you can get HD on network broadcasts in some areas.

Before committing to any service, check its full listings to see how much of it is of interest. Dropping or swapping channels or packages at a later date may cost you a few dollars.

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A CLOSER LOOK

March 2003

A menu of choices: HD and more

- [Main report](#)
- [Nuts & bolts of satellite TV](#)
- [Hooking up your TV](#)

High-definition TV (HDTV). Available through antenna, digital cable, or satellite.

HDTV displays sharp, high-resolution images that are more lifelike than those of regular TV. There's more HD programming on major networks and cable and satellite channels than ever before, but it's not always easy to get. Your local network affiliates and cable or satellite company have to pass it through in HD, and you need special equipment to receive it, as explained in the accompanying story.

Video-on-demand (VOD). Available only through digital cable.

VOD offers movies, sports events, and other programming (such as HBO and Showtime) for viewing whenever you like. With certain cable services, including Time Warner Cable of New York City, you can pause, rewind, fast-forward, or play a movie from the beginning, any time during a 24-hour period. The cost: about the price of pay-per-view, ranging from \$2 to \$4 per event.

Interactive TV. Available through digital cable and satellite.

You can use your remote to request local weather reports or stock quotes or to buy books or theater tickets. There's no monthly fee; you pay per transaction for purchases.

Built-in recording. Available through digital cable and satellite.

You may have heard of services like ReplayTV or TiVo, which let you record programming on a hard drive. You can get similar capabilities built in to a cable or satellite box. You can customize the program-guide view, record one program while watching another, and pause and rewind "live" TV using the device's buffer memory. Both satellite companies and some cable companies offer receivers with hard drives for recording. Most providers charge about \$10 a month for this capability or build the charge in to the cost of the initial hardware. (You can get hard-disk recording with antenna or analog cable by using an external device from ReplayTV or TiVo.)

Internet access. Available through analog or digital cable, and in some cases also through satellite.

For years cable-TV providers have made high-speed Internet access available through cable modems. Equipment and monthly service fees are usually bundled with your cable-TV charges, meaning one less bill to deal with. DirecTV offers Internet access via a special dish, but the hardware and service package costs more than the typical cable offering.

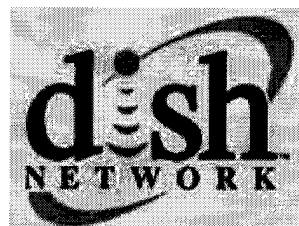
A CLOSER LOOK

March 2003

The nuts & bolts of satellite TV

- [Main report](#)
- [A menu of choices: HD and more](#)
- [Hooking up your TV](#)

With a foothold in only one out of five households, satellite TV is still unfamiliar to many consumers. DirecTV and EchoStar's Dish Network, the two leading nationwide providers, hope to change that. They're wooing cable subscribers with promises of a wide range of channels and services, including high-definition (HD) programming.



The programming--described in detail in the main report--isn't all that different from what digital cable has to offer. The equipment is a bigger point of departure. Here's a detailed look at the hardware issues involved.



With satellite TV, you'll need a dish antenna/receiver combination designed to work with the service you've chosen, much as you need a cell phone that works with the phone carrier you've selected. You can generally buy hardware directly from the service provider, or you may be able to get it free as part of a promotion.

You can also buy the equipment at an electronics store or from a satellite-system dealer/installer. With both DirecTV and Dish, there are several brands of equipment that are designed to work with those services. Installation can be tricky, so you might want to let a professional handle it.

Basic packages including a dish antenna, receiver, and remote cost about \$100. If you want to watch different channels on two TVs at the same time, you'll need a separate receiver for each set. You can use one receiver with two sets, but you'll get the same channel on each.

Packages with a receiver and dish capable of receiving high-definition (HD) signals start at about \$500; you must have an HD-ready TV as well. To get HD programming on DirecTV, you need a special dish that can address several satellites at once; for Dish Network, two dishes are required.

Some receivers have a hard drive for recording TV fare, much like stand-alone digital-video recorders from TiVo and ReplayTV. Recording models start at about \$400. Some receivers have two tuners so that you can watch picture-in-picture on any TV and record two programs at once.

Most receivers have radio-frequency (RF)-based remotes so you can control the receivers from other rooms in the house. They have timers for recording on your VCR, which they control with infrared, and digital-audio output to connect to an audio receiver with a Dolby Digital or DTS decoder to provide surround sound. You will have to connect each receiver to a phone line (your existing line is fine; you don't need a separate line) to get program guides, pay-per-view programs, and more.

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May 6, 2003

EchoStar Profits on Subscriber Growth

By REUTERS

Filed at 3:39 p.m. ET

NEW YORK (Reuters) - EchoStar Communications Corp. on Tuesday said it swung to a profit in the first quarter, driven by a strong increase in subscribers to its satellite television service.

EchoStar shares jumped 5 percent in mid-afternoon trading.

EchoStar, reporting only its third quarterly net profit in the past nine years, earned \$58 million, or 12 cents per share, versus a loss of \$35 million, or 20 cents per share, a year earlier. The previous-year results reflected a non-cash charge related to the Vivendi Universal equity investment.

Rob Sanderson, an analyst at American Technology Research said results "look strong," adding, "They did a much better job on net additional subscribers than we were looking for." He raised the stock's rating to "buy" from "hold" last week.

The company added 350,000 net new subscribers in the first quarter, up from 335,000 a year earlier. EchoStar subscribers increased about 4 percent since the end of last year. The company now serves 8.53 million subscribers.

Customers are also spending more on average. Average revenue per user, known as ARPU, improved to \$51.48 from \$48.36 in the previous year.

In March, Littleton, Colorado-based EchoStar said it expected to add 1 million subscribers in 2003, a drop from the 1.35 million in 2002.

Sales rose more than 23 percent to \$1.36 billion from \$1.10 billion a year before, the company said in a statement.

Wall Street analysts expected earnings of 10 cents per share on revenue of about \$1.35 billion, according to research firm Thomson First Call.

Deutsche Bank Securities analyst Karim Zia reiterated a buy rating, pointing to gains in market share and improved earnings.

Earnings before interest, taxes, depreciation and amortization rose to \$277 million from \$100 million, while free cash flow from operations rose to \$125 million from \$89 million.

COMPETITIVE CONCERNS

Analysts wondered whether the results were sustainable in the face of mounting competition from cable TV operators and larger satellite rivals. Rupert Murdoch's News Corp. (NWS.N) is awaiting approval for its purchase of a controlling stake in competitor DirecTV's parent Hughes Electronics Corp. (GMH.N) from General Motors Corp. (GM.N).

"Competition with cable is the number one issue," said SG Cowen Securities analyst Thomas Watts, adding that cable companies have more than three-quarters of the market.

EchoStar Chief Executive Charles Ergen played down the impact of News Corp.'s entry into the market.

"It's clear that News Corp's entry would be a negative for cable, and it may or may not be a negative for EchoStar," Ergen told analysts in a conference call. He added that News Corp.'s effect on EchoStar is harder to gauge and will be contingent on the regulatory constrictions to the deal.

"You've got a lot of potential for mischief and concern," Ergen said. "Those are things we think regulators will look at."

The stock, reversing Monday losses, gained \$1.62 to \$32.25 on Nasdaq, near a two-year high.

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Cable Vs. Satellite: Who Wins Which Battles?

By JIMMY SCHAEFFLER

Since its mid-1994 launch, the direct-broadcast satellite industry has stuck it to cable. Yet today, in most U.S. TV households, the tide may be shifting toward cable.

The reasons behind these shifts involve the very nature of competition between companies fighting to survive. The No. 1 reason the EchoStar Communications Corp.-DirecTV Inc. satellite duopoly worries today about the fleet-footed cable industry is the latter's "big new pipes" and cable's ability to deliver consumers the "bundled magic" of one, digital audio and video; two, telephony; and three, high-speed data.

Moreover, there is a clear reason why this article's title does not discuss the cable vs. satellite war, rather than the *battles* — no one can yet predict who'll win.

The victories and defeats in the war between cable and satellite will be based upon the relative advantages and disadvan-

tages of each player in each market, for given periods of time, and upon competition in each area listed below:

Technology: Advantage Cable. Cable's delivery of "bundled magic" puts satellite (and telephony, and wireless) at a distinct disadvantage technologically. All three "outsiders" are seeking new partners and new technologies to get them into this bigger game. Additionally, new cable solutions, such as Sony Corp.'s *Passage* (which merges encryption and conditional access), provide the industry great promise to allow for greater flexibility in set-top box deployment, new services availability, and the sharing of bandwidth.

Satellite needs similar solutions if it expects to continue to be the leader, *en masse*, in the delivery of quality video. It also requires innovations such as electronic program guides, digital video recorders, and HDTV. Arguably, assuming that cable attains an advantage in this single area, that gives it the overall edge — despite satellite's rela-

tive strength in almost every other area below.

Customer Service: Advantage Satellite. DirecTV Inc. reports recently that it again received a top award for having provided its multichannel subscribers with the best-in-class service. For both DirecTV and EchoStar

they ARPU, churn or cash flow.

Marketing: Advantage Satellite. Satellite can market on a national basis, which no cable operator can do. Yet, conversely, cable can do a better job of marketing a distinctly local message.

Distribution: Advantage Satellite. Retail outlets, direct mar-

HDTV services, but cable knows its importance and is concentrating on it. For DVRs, it's satellite, but cable has a strong shot here, too. For interactive TV, it's still satellite, but until Rupert Murdoch purchases DirecTV toward year-end, most Americans will remain unable to appreciate ITV, and it will remain last on the list of new, advanced services. The only cable advantage in this subsector is video-on-demand, but doubt remains whether cable, as an industry, can capitalize on it.

Executive Management: Advantage Satellite. This is not to say that cable management — especially trusted stars like Jim Robbins, Jim Chiddix, Carl Vogel, Brian Roberts and Chuck Dolan — aren't making changes to make it happen. Rather, when you look at the number of advantages satellite holds from the list above, it is hard not to give the nod to the folks in the sky ... at least for now.

Jimmy Schaeffler is CSO and a senior subscription TV analyst at The Carmel Group.

"The victories and defeats in the war between cable and satellite will be based upon the relative advantages and disadvantages of each player."

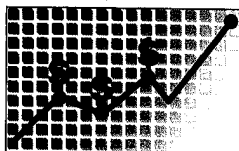
Communications Corp., both remain well above their cable competition. In order to truly thrive, even the subscriber in the smallest and most remote of Comcast Corp.'s most-distant systems, must be able to expect first class, prompt service when he or she calls, writes or e-mails.

Financials: Advantage Satellite. DBS models are based on the concept of cash flow, rather than the model of return on invested capital. Most of satellite's metrics today are stronger, be-

eters and dealers make up the satellite-TV sales chain.

Programming: Advantage Satellite. Satellite retains the advantage, according to a recent version of a multiyear study performed by The Carmel Group. For example, the average per-channel, per-month price for digital cable was 39 cents, while the same measure for EchoStar or DirecTV was 34 cents.

Advanced Services: Advantage Satellite. Satellite earns a slight edge in the delivery of



Dollars and Sense

THE COST OF COMPETITION—A GOOD DEAL FOR CONSUMERS

by Armand Musey

To the very end, EchoStar CEO Charlie Ergen swore that if his Dish Network and DirecTV were not allowed to merge, the DBS companies were doomed to second tier status among the U.S. multichannel television providers and consumers everywhere would be forced to accept increasing subscriber rates. We disagree. While we readily acknowledge a combination of Dish and DirecTV would have created a very dynamic competitor and investors would have benefited, we are less convinced that consumers would not have born a heavy cost for its creation. Instead, we argue that the U.S. multichannel television industry has become decidedly more competitive throughout the past year because of the competitiveness of the DBS companies on a standalone basis, benefiting both rural and urban consumers. Moreover, the emergence of two factors will ensure that this trend continues in the foreseeable future.

The first factor is that the U.S. multichannel television business is hitting mature levels of market penetration, which is driving increased competition between providers. Currently about 85 percent of all U.S. households subscribe to DBS or cable. This figure compares to just 40 percent when DBS was introduced in 1994. With more than 19 million subscribers, or an 18 percent market share, DBS has been a significant driver of this growth. However, as the percentage of unserved homes shrinks, growth is becoming a zero-sum game. In order for the DBS companies to add a subscriber they must steal one from cable, and visa-versa. This means the incentives to the customer are increasing, whether they are in the form of lower rates, increased programming or better service.

The second factor lies in the competitive



differentiation between DBS and cable, which is diminishing, increasing consumer choice. This issue is diminishing, which is increasing consumer choice. DBS used to be the only way for the true videophile to get 200-plus channels of digital television. The cost of the equipment and installation was expensive and DBS did not offer local channels, so most of the country made due with a standard fair of 50-or-less channels of analog cable. Now, much of the country has access to digital cable and the cable companies are slowly, but surely, rolling out enhanced features such as interactive programming guides and video-on-demand (VoD). Both the Dish Network and DirecTV responded by launching spot-beam satellites, which should allow them to offer local channels to roughly 60 percent of the United States, and the Dish Network has been rolling out personal video recorder enabled set-top boxes that should allow it to offer a service comparable to cable VoD.

As the multichannel television market has become saturated, and as DBS and cable have become less differentiated, they are increasingly being forced to compete on price. This can be seen in both monthly subscription rates and the "all-in" cost of service. Our models show that DBS industry ARPU (average revenue per unit) is trending flat-to-down for 2002, despite the broad roll-out and take-up of local channels at an incremental \$5 to \$6 per month. We also note that more than one cable company has responded to competitive pressures and negative growth due to DBS with "dish busting" (low-priced offerings aimed at countering DBS competition). At the same time, DBS equipment and installation now typically cost the consumer less than \$100, which is roughly equal to cable. We expect these trends to continue and believe that all of this, despite Ergen's protestations to the contrary, has benefited the consumer and will continue to benefit the consumer in the foreseeable future.

While these trends point to the strength of the competitive position of DBS in a new

and more competitive multichannel television world, we believe it is important to warn investors that some of these trends are not necessarily positive from a shareholder's perspective. Increased competition means lower returns—somebody has got to pay for the consumer's benefits. Throughout much of 2002, shares of DISH and GMH remained range bound, despite consensus valuations calling for much higher share prices. We believe this is because these valuations were based on unrealistic forecasts for improvements in DBS subscriber economics that failed to recognize increased competition. In general, we believe DBS subscriber growth will decelerate significantly, but we think that DBS growth should continue to outstrip cable as it increases its share in markets with weak cable competitors, and that it is realistic for investors to expect DBS to ultimately capture 25 percent of the total U.S. multichannel television market. However, we believe that most estimates for strong rate increases, reductions in subscriber acquisition costs and little-to-no increase in long-term churn are aggressive, as are most valuations. Sorry Charlie, hooray for consumers. ♦

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Losing a Media War?

CABLE EXECUTIVES CALL FOR QUICKER SERVICE LAUNCHES

MIAMI BEACH — Leading cable executives, engineers and analysts sounded strong warning to rest of industry this week, urging colleagues to roll out new technologies, products and services much faster than ever before. Speaking at Society of Cable Telecom Engineers (SCTE) Emerging Technology conference here Wed. and Thurs., cable experts said industry must pick up its traditionally cautious pace to compete better with satellite TV providers, personal video recorders (PVRs), wireless providers and other young, aggressive, high-tech rivals. Otherwise, they said, cable will miss out on some golden revenue opportunities and cede more market share to its competitors.

"We are in a war, no question about it, a media war," said Paul Kagan, head of Kagan World Media. He saw at EIA convention such growing products as HDTV, DBS, PVRs. Saying satellite industry now had nearly 20 million subscribers in U.S., he warned that cable operators "can't wait any longer" to introduce "multiple service offerings."

Cable experts also warned that industry must step up its launch of new products and services to recapture its position as technological leader. They said DBS had seized that role recently, making cable seem to be technical laggard. Partly as result, satellite TV's appeal has increased more than cable's. "We have got to get back in the lead on technology," said Comcast Vp-Digital Products Mark Hess.

On heels of last month's "plug-and-play" pact between cable and consumer electronics industries, show speakers prodded cable operators to go beyond their existing marketing agreements with CE retailers and sign deals with CE manufacturers to put more cable-centric products in stores, just as DBS providers already have done. Such partnerships, they said, would make it far easier for cable industry to roll out new products and



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services swiftly. They also contended that deals with CE makers would boost product innovation, cut costs, raise consumer awareness, accelerate subscriber growth, slash high churn rates and spur development of ancillary products and services.

"We should embrace retail," said Steve Silva, exec. vp-chief technology officer of Charter. "Consumers know how to walk into the store and buy something. Let them play with it, let them enjoy it, let them learn about it."

Conference speakers also pushed cable operators to capitalize on new technologies earlier and quicker than in past. Over last couple of years, for example, cable has largely ignored emergence of PVRs because of its preoccupation with video-on-demand (VOD), which officials believed would be superior. Meanwhile, DirecTV and EchoStar have been busily marketing PVR boxes and incorporating PVR features in their satellite set-tops, giving them strong early edge on cable operators. "This industry has always had the right ideas but has been slow to adopt them," Silva said. "It's time to change."

In particular, panelists urged cable operators to plunge into home networking right now. With portable TV and computer screens now being developed, they said, zipping signals around home wirelessly would become increasingly important to consumers.

Panelists said MSOs must find ways to turn home networking into manageable, easy-to-use, money-making business for industry. Brian Holmes, senior associate of IBI Group, suggested cable operators either become or own in-home network wiring contractor handling installation and maintenance. "The trick will be to do this as a profit center, not a cost center," he said. Industry experts said cable operators had little choice but to enter home networking business because customers would expect them to handle any technical problems, even if other companies were ones that really were responsible.

In several conference sessions, panelists highlighted other new cable services with strong promise such as voice-over-Internet protocol (VoIP), data service tiers and multimedia gaming head list. But list of prospects also includes interactive TV, IPTV, IP-VoD and other kinds of consumer multimedia services delivered over IP platform, as well as high-speed data, videoconferencing and streaming media services for small and medium-sized businesses. — *Alan Breznick*

Core Cable Stagnating

CABLE LEADERS BULLISH ON HDTV, VoD, DATA, PVRs

BOULDER, Colo. — Despite the shaky economy, poor stock prices and tight capital markets, 3 of the 4 biggest cable operators are pushing ahead briskly with several advanced video and data services. Speaking at a CableLabs media briefing here Tues., executives of Comcast, Cox and Time Warner spelled out plans to roll out those new services more aggressively over the next year to year and a half. They all said the new services were gaining steam even as their core basic cable businesses were stagnating.

"Right now we're more enthusiastic about the future than at any point in the past," Comcast Pres. Steve Burke said. He said such new products as digital video, high-speed data and cable telephony were "really driving the growth" of the company, accounting for "well over half of our cash flow growth" in 2002. He also affirmed that Comcast aimed to keep bringing out a major new cable product every 12 to 18 months.

Indicating Comcast's enthusiasm, Burke said the MSO would spend \$4 billion over the next 12 months to upgrade the aging cable systems that it inherited from AT&T and introduce more new services on the systems it already owned. "We're doing that, with complete confidence that we'll get payback on our investment," he said. Plans call for upgrading 90% of the old AT&T plant and 97% of the old Comcast plant by the end of 2003 and then finishing the job next year. "We're rebuilding at a pace we've never rebuilt at before," Burke said, and said the MSO planned to upgrade 46,000 plant miles this year.

In particular, the major MSOs are pouring money into their new video services. Executives said they were doing that partly because of surprisingly strong consumer demand for the services and partly because of satellite TV's continuing robust growth. They're striving to eliminate the perceived competitive edge that satellite TV still has among most consumers, especially with high-tech services such as PVRs.

"Those are the ways we are going to go from playing defense to playing offense," Burke said, saying cable had been playing defense against satellite for the last 5 years. In a year or 2, he said, "I think we'll have a more competitive product than satellite has."

The big cable operators also are investing heavily in new video services because they have been stung by flat subscriber growth and, in some cases, new customer losses. In the most unsettling example for the indus-

try, the old AT&T Broadband, now part of the new Comcast, lost hundreds of thousands of subscribers last year. As a result, Burke said Comcast executives would spend the next 18 months "fixing" the former AT&T unit.

HDTV, video-on-demand (VoD) and personal video recorders (PVRs) head the list of new services that are being promoted. At Time Warner, Mike Hayashi, senior vp-advanced engineering & subscriber technology, said all 3 advanced services were showing strong early results for his company. For instance, Time Warner is approaching 100,000 subscribers nationwide for its cable-HDTV service, which typically offers a package of up to 10 broadcast and cable stations for an extra charge each month. "It's not a big number yet but it's growing rapidly," he said. Time Warner also has signed up 50,000 subscribers for its new cable-PVR service, which it started distributing last fall for an additional \$5-\$10 monthly fee. "It's great," Hayashi said. "For me, it's the 2nd coming of the remote."

Comcast primarily is promoting its free video-on-demand (FVoD) and HDTV offerings. The MSO, which now has 10 million digital cable boxes in 6.5 million subscriber homes, is seeking to offer both services to at least half of its customers by the end of the year. Currently, each service is available in just a few major markets. Burke said Comcast's cable-HDTV offering, which began in its Philadelphia home market 12-18 months ago, is picking up momentum. The company has installed 50,000 set-top boxes in subscriber homes for the service, which is similar to Time Warner's but with a stronger emphasis on local sports programs produced in the HDTV format. "I think high-definition television is starting to surprise us," he said.

At the same time, Burke said Comcast's new FVoD service, introduced in Philadelphia 3 months ago, already has been used by 48% of its 600,000 digital cable customers in that market. Seeing it as a key competitive advantage for cable in its duel with satellite, he said he was striving to boost that percentage rapidly. "What we really want to do is drive that number into the 50s, 60s and 70s," he said.

But hurdles remain for wide-scale introduction of such new video services. On the PVR side, for instance, Hayashi said hard-disc drives generally broke down about 10 times more often than cable set-top boxes and fragile PVRs didn't always survive the bumpy ride in a cable installer's truck to a subscriber's home. "Have you ever ridden in the back of our truck?" he asked. "It's pretty nasty."

The Big 3 MSOs also are more optimistic than ever about high-speed data, which they once saw as a mere niche market. With their customer penetration rates surging to 15% and higher and their cable modem costs falling below \$50 apiece, they think the data business still has plenty of room to grow. Jay Rolls, Cox vp-data engineering, said his company now was signing up 10,000 new customers a week for cable modems. He said 79% of new subscribers were buying their modems and 34% were installing the devices themselves. Cox closed 2002 with 1.4 million data subscribers.

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Burke said Comcast, which now has 3.6 million data customers thanks in part to its buyout of AT&T Broadband, seeks to end 2003 with 5 million subscribers. "We're still somewhat in a land-grab mentality with DSL," he said. He said that number would make Comcast the 3rd-largest ISP in the U.S. and probably the largest broadband ISP in the world. With the average data customer now paying Comcast about \$500 a year, he said, it also would mean that the company's broadband business would be generating \$2.5 billion in annual revenue. — *Alan Breznick*

News

PVR, VOD Creating Value; Report Points to Upside

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Mermigas on Media

1

English

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The consumer friendly new interactive technologies such as personal video recorders that have been frightening away advertisers and broadcast network executives are actually driving higher returns for cable operators especially by reducing user turnover, lifting revenues and helping move customers up the food chain of next-generation services.

In fact video on demand and personal video recorder technology offered in cable set-top boxes is driving subscribers to the emerging digital platform, while generating faster, bigger returns on investment.

"We believe interactive technologies are tools by which the satellite and cable operators can enhance their offerings and extract more value from their subscriber base," said Morgan Stanley analyst Richard Bilotti in a new report on **PVR** and **VOD** technology.

The adoption rates of these new technologies has been helped by the fact that their cost to consumers has dropped by up to 75 percent in the past four to five years and should continue to decline both as standalone and bundled offerings, he said. That said, Mr. Bilotti does not expect home video consumer spending to increase, but rather, simply shift away from traditional distribution platforms to new technologies.

"But we believe the real upside exists in migrating customers u the price curve, particularly in the case of cable operators," he said.

In fact, Mr. Bilotti promises two more reports on the subject just to more fully explore thee ramifications of early interactive technology on mainstream distributors and content providers. A second report will focus on the impact these new technologies, and PVRs in particular, have on audience ratings and advertising revenues of the major television station groups, broadcast networks and cable networks. A third report in the series will focus on the impact of consumer technology on film studio economics.

But in the brave new world of digital interactivity, there are no safe havens or players. Everyone and everything is game.

The migration in consumer spending from VHS format to the DVD, and the shift from rental to a sell-through market has been faster than Wall Street or the media industry itself expected. The primary competitor to new **VOD** and **PVR** services is the DVD recorder-player, whose ability to store content directly competes with server-based content services and with in-home, hard-drive solutions in the **PVR**.

The **PVR**'s functionality allows consumers to store all kinds of content with limited vulnerability to the DVD player. But, the recordable DVD is "a greater potential threat to the **PVR**," Mr. Bilotti aid.

Thoroughly confused?

The major cable operators have begun sorting all of this out in a way that already has begun delivering returns. Comcast is following Time Warner's and Cox Communications' leads in deploying PVRs generally in the \$5 to \$10 range, experimenting with both the lease and the owned equipment model. Likewise, satellite providers DirecTV and EchoStar have begun to aggressively deploy **PVR**-enabled boxes.

"No single operator in either sector has reached 1 million **PVR** subscribers," although the satellite providers could reach those levels by early 2004, while the first cable operator, Time Warner, is likely to hit the mark by the end of 2004, Mr. Bilotti said. PVRs by far offer the greatest upside to DBS operators through churn reduction that can be as high as 50 percent.

In the case of VOD and subscription VOD for cable operators, the real benefit is not so much in the revenue upside as the reduction of subscriber churn. In the early going of its Philadelphia-based digital and VOD service, Comcast found from its own research that turnover among the on-demand set of digital subscribers was 50 percent lower than for digital subscribers not offered on-demand services, he said.

The report, which is uncommonly comprehensive, is a first-of-its-kind drill-down into the actual early use of PVRs and VOD service that has threatened to turn the advertising-supported media world in particular on its ear. What we find, instead, is that the extension and enhancement of media provided by such new technology and services creates more new value than it destroys-particularly for companies that embrace it rather than shun it.

Mr. Bilotti's forecasts are an eye-opener:

--As many as 25 percent to 30 percent of new DBS subscribers will opt for **PVR**-enabled set-tops by 2005, with the cable and satellite industry reaching 114 million of **PVR** households by 2007.

--VOD and SVOD will be offered almost ubiquitously by the major MSOs by the end of 2005.

--In home video, DVD sell-through and rentals more than offset VHS decline. DVD and VHS revenues should grow another 9.5 percent in 2003 as DVD player penetration reaches half of all TV households by the end of 2003.

There are, of course, some risk to all of this, but far fewer than any of the doomsayers originally anticipated. A key risk for cable operators revolves around the potential for **PVR** to compress the useful life of the set-top box. If vendors increase the number of hours available for content storage, add increased levels of "intelligence" and allow for high-definition TV content storage, the returns from leased versus purchased equipment decline more rapidly due to obsolescence in the normal replacement cycle of equipment.

The good news is cable operators can resort to a retail distribution model similar to that for DBS that allows them to offload the risk of a new **PVR**. The bad news is the potential compromise of security as the industry attempts to move to an open standard across the platform.

Other risks to the **PVR** strategy is that as penetration increases, the marginal subscribers see less value in the technology. So there could be a \$100 to \$170 investment without any incremental return if churn does not decline and the incremental average revenues per unit prove not to be sustainable.

A worst-case scenario would be that DBS providers use promotions and discounts to move PVRs into subscriber homes but do not see any reduction in their subscriber turnover, Mr. Bilotti said.

But perhaps the most meaningful conclusion of Mr. Bilotti's report is that there are immediate economic returns to this new interactive digital technology.

--The incremental capital for a **PVR** box translates into higher average revenue per subscriber (ARPU) and decreased churn. This makes the cost of **PVR** adoption a neutral investment for cable operators but accretive to DBS operators at nearly every price point, Mr. Bilotti said.

--For both cable and satellite providers, there is an improvement in the mix of subscribers where, especially at the high-end of a video package, the internal rate of return on investment can be as much as two to three times the return on investment capital of mid-level package subscribers.

--Because the cost of this new technology is declining so rapidly, cable and satellite providers will become increasingly aggressive to roll out interactive products such as PVRs and VOD.

In reviewing the internal rate of return and investment assumptions Mr. Bilotti uses as the foundation of his analysis, it's clear that, right now, deployment of these new services and products are no cheap endeavor for cable and satellite providers. Consider that DBS providers must spend an average \$100 for a hard drive and **PVR** functionality to install the technology into an exciting DBS receiver. In the cable industry, a **PVR** set-top box will run \$350 a unit, compared to the \$180 cost of standard digital set-top box.

In the emerging world of VOD and SVOD, the industry currently pays a \$500 per stream cost including server storage, transport and conversion, Mr. Bilotti said. About 45 percent of the VOD revenues go to the studio, with the remainder staying with the cable network.

But, as Mr. Bilotti points out, any money invested in this new technology now, for the most part, will see some meaningful returns. We're still in the early stages of the new digital interactive game.

Subscriber Summary * Subscriber Unit Forecast Morgan Stanley

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SATELLITE NEWS

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HEADLINE: Technical Innovations Drive Competition

BODY:

By Jimmy Schaeffler

DirecTV and EchoStar Communications [Nasdaq: DISH] have enjoyed rising stock prices, despite intense competition from cable TV. Just prior to last week's National Cable & Telecommunications Association (NCTA) conference in Chicago, cable's focus was clearly on "execution and delivery of services," according to NCTA President Robert Sachs. "Mergers and acquisitions" no longer are at the forefront of the cable industry's plans.

In addition, both cable and satellite TV continue to pursue new **technical** applications aggressively. These new services are critical because of two factors: 1) enhancing average revenue per unit (ARPU) and 2) reducing churn by building loyalty - and stickiness - among subscribers.

HDTV, VOD and Modems

The exhibit hall at Chicago's McCormick Center reflected three key trends during last week's NCTA show. One was cable's passion for high-definition TV (HDTV). Indeed, the cable industry feels that HDTV is the most important card it will be playing to trump satellite in the marketplace. Cable has coined the phrase "digital revolution" and the NCTA drove home the point by making it the conference's title and theme. Numerous booths and displays on and off the show floor highlighted something that the cable industry has not seen for some time: new technology that is not just "planned," but actually on display and deployed.

Starz Encore's John Sie and his team unveiled their own vision of HDTV. Starz Encore's advanced services now include subscription video-on-demand (SVOD) together with HDTV. So far, only satellite can deliver HDTV ubiquitously nationwide. That capability is something that cable may never be able to do. For this reason and others described below, direct broadcast satellite (DBS) retains a slight advantage for the remainder of 2003, at least in the battle for HDTV subscribers.

Internet and Broadband

A second advanced service the cable industry emphasized at NCTA was cable modems and their ability to deliver broadband services. With larger cable systems upgrading to 550 MHz or more, today's digital cable services are capable of doing what only one competitor (i.e., telephone companies via digital subscriber lines (DSL)) can do today: deliver high-speed Internet and telephony services. In addition, cable is able to add one more flower to this bouquet:

video and audio. Thus, the "beautiful bundled bouquet" cable offers gives the technology a huge advantage over satellite going forward, despite satellite's edge in just about every other competitive area.

DVRs And VOD

The final area of emphasis at NCTA was digital video recorders (DVRs) and VOD. In this battle, DBS again has the advantage over cable. This is because both DBS companies can offer DVRs across the landscape of more than 100-plus million TV households (TVHHs). Additionally, DVRs avoid many of the copyright and digital rights management issues encountered by VOD. Further down the line, this DVR advantage for DBS may shift. Hollywood and New York City content providers may well fight consumers' copying entertainment and sports programming for free.

DBS' Other Plusses

A recent study by The Carmel Group addressed the strengths and weaknesses of both DBS and cable. The analysis found that DBS beats cable in eight of nine areas. The one area where DBS needs to play catch-up in the next two to five years is in bundling of services. The key in this area, as noted above, is cable's ability to bundle video/audio, telephone and Internet/broadband service on one and two-way lines. Nonetheless, the eight other areas where DBS retains its lead are customer service, financials, marketing, distribution, programming, advanced services (other than bundled services), price and executive management skills.

And The Numbers, Please...

After closing the first quarter with 11.42 million total subscribers, Hughes Electronics' [NYSE: GMH] subsidiary DirecTV added an estimated 76,000 net new subscribers in April and an estimated 79,000 net new subscribers in May. On this track, DirecTV will close the second quarter with an estimated 11.7 million subscribers. DirecTV's total for the year-to-date comes in at 430,000 net new subscribers, based on The Carmel Group's estimates. DirecTV is headed for another hot year, bringing in a solid share of the total 2.4 million net new subscribers we estimate will be added by the U.S. DBS industry for all of 2003.

EchoStar is estimated to have closed the first quarter with 8.53 million total subscribers. Those estimates include 92,000 net new subscribers in April and 95,000 net new subscribers in May. At the end of May, EchoStar had amassed an estimated 8.7 million total subscribers. EchoStar's total for the year thus far comes in at 537,000 net new subscribers, according to The Carmel Group's estimates.

Together, the two DBS providers today serve an estimated 20.3 million subscribers. The 20-million milestone likely was passed in April. At the end of March, EchoStar held an estimated 43 percent of the U.S. DBS market share, with DirecTV accounts for the remaining 57 percent. The Carmel Group projects DBS will reach the magic 30-million subscriber mark sometime in the 2008-2009 time frame.

Both providers together added 625,000 net new subscribers during the first quarter and an estimated 168,000 net new subscribers in April. They further combined for an estimated gain of 175,000 new subscribers in May.

At this pace, The Carmel Group estimates the two companies will record well above 2 million net new subscribers for the year. This compares well with

prior years and suggests that cable providers will need to look back over their shoulders at the oncoming competition. The answer for those cable guys is - Keep doing what you do better, and emphasize "the bundle."

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SBC Adds Pay TV to Its Service Lineup

Deal With EchoStar Responds to Cable Firms' Expansion

By Christopher Stern
Washington Post Staff Writer
Tuesday, July 22, 2003; Page E01

The nation's second-largest local telephone company announced yesterday that it had signed a deal with satellite television provider EchoStar Communications Inc. to offer pay TV programming to millions of customers in its 13-state region, including California, Texas and Illinois.

Separately, SBC Communications Inc. said it had also invested \$500 million in EchoStar. The 3 percent note is due in 2010 and can be converted into equity in the satellite television company.

The two transactions come as the telephone industry seeks to respond to the growing competitive threat from the cable industry, which has been increasingly using its lines to sell Internet and telephone services.

Yesterday, Qwest Communications Inc. announced its own deal with EchoStar to market the satellite television service to single-family homes in Colorado and Nebraska. Unlike SBC, Qwest said the television service will be sold separately and will not be included in a package with other telecommunications services. The Denver telecommunications company also announced a similar agreement to offer an EchoStar competitor, DirecTV, to single-family homes in Phoenix, Tucson and Seattle.

Cable firms such as Cox Communications Inc. have been able to lure away subscribers from the once-dominant regional telephone companies by offering subscription packages that combine television programming, high-speed Internet access and telephone services.

Telephone companies have offered their own packages of local, long-distance, mobile phone and Internet service. But until now, no telephone companies could include television programming in its bundle.

"This deal changes the competitive landscape of the industry," said SBC chief executive Edward E. Whitacre Jr. "Video, wireless, wireline and broadband -- that's a package our cable competitor cannot match."

SBC is among the hardest hit by cable. It has spent the past nine months trying to find a television programming source to counter the threat. Earlier this year it broke off merger talks with DirecTV, the satellite television arm of Hughes Electronics.

In Orange County, Calif., where Cox competes directly against SBC, the cable company has signed up more than 130,000 telephone customers, about one-third of the local market.

SBC officials said they would begin offering satellite television to customers as early as the first quarter of 2004.

EchoStar will gain from the deal through its ability to market SBC's high-speed Internet service to its customers. Earlier this year, SBC and Verizon Communications Inc. slashed their monthly fees for Internet service in response to cable's success in signing up customers.

For its part, EchoStar has been struggling to counter cable's Internet offerings, and EchoStar chief executive Charlie Ergen said it may be some time before satellite companies can compete head to head with the cable industry.

"There are certainly technical challenges to make that economical," Ergen said.

Analysts praised the deal as an inexpensive and expedient alternative to SBC's initial interest in buying DirecTV. News Corp. ultimately won that contest and agreed to acquire DirecTV in a \$6.6 billion deal.

At a time when the telecommunications industry is in a steep downturn, analysts are leery of such a large expenditure by a telephone company.

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HEADLINE: COMPETING WITH CABLE TV;
QWEST, ECHOSTAR MAKE DEALS TO STEP UP MARKETING CLOUT

BYLINE: Jeff Smith, ROCKY MOUNTAIN NEWS

BODY:

EchoStar and Qwest Communications announced big steps Monday to better compete with cable TV, which increasingly is luring customers with a telephone-Internet-video combo.

Denver-based Qwest will market EchoStar satellite TV services in Colorado and Nebraska beginning in early August, with more markets likely to follow. Qwest announced a similar alliance with DirecTV for Phoenix, Tucson and Seattle.

In another big business deal Monday, EchoStar expanded its year-old marketing partnership with San Antonio-based SBC Communications in its 13-state region, with the second-largest U.S. local-telephone company agreeing to invest \$500 million into EchoStar.

The various joint marketing agreements are designed to give the Baby Bells and satellite TV providers more marketing clout at a time cable TV companies and other competitors are carving into their business.

Cox Cable especially has picked away at Qwest's market share in Omaha, while Comcast, formerly AT&T Broadband, has become a formidable competitor in the Denver area.

"Clearly the holy grail for all the telephone companies, especially in this very competitive environment, is to package all their services together," said Bruce Allen, a portfolio manager at Cascade Financial Management Inc. in Denver.

In Colorado, Qwest will add satellite TV services to its "bundle" of telecommunications offerings to single-family homes, while EchoStar hopes to attract customers particularly in urban areas who want high-speed DSL Internet access.

Qwest and EchoStar said customers will get discounts by subscribing to a package of services, but the pricing plans for Colorado consumers won't be announced for a couple of weeks.

"(EchoStar) is aware that there's a gap in their product bouquet in not having DSL, and the phone companies are aware there's a gap in not having video," said Matthew Harrigan, a telecommunications analyst with Janco Partners in Greenwood Village.

Pat Comack, a telecommunications analyst with Guzman & Co. in Miami, said Qwest and SBC really don't have a choice but to enter into such alliances.

Video over copper telephone wires just isn't a feasible option at this point, Comack said, and "fiber to the home is a long ways off."

Qwest Chief Executive Richard Notebaert noted that Qwest is doing this without making a major investment, and consumers should like the additional option.

"(Say) I'm a customer. I've been wanting a choice against cable. This lets me put satellite TV services with DSL, unlimited local, long-distance and wireless" telephone service, Notebaert said.

Customers will be able to order such services through one phone call.

Nolan Daines, EchoStar's senior vice president of broadband, noted that not only will EchoStar be able to offer customers high-speed Internet service through the SBC and **Qwest** partnerships, but "we'll also be able to bring to the table wireless (telephone) services, which cable can't. We want to one-up them; we want to be on the offensive."

Ken Reif, director of the Colorado Office of Consumer Counsel, a utility watchdog, said a telecommunications package including satellite TV could be an exciting new option.

"But I have no idea whether it's good (for consumers) until I see the prices," Reif said. "The general advice is to find out what it costs to buy the individual services you want on a stand-alone basis (from various providers) and add them together."

Reif said some telecommunications packages have proved not to be a bargain.

Allen said Monday's move especially was critical for financially strapped **Qwest**, whose product bundle includes a weak regional cellular phone service offering.

Qwest separately has been in discussions to strengthen its wireless product, and analysts said **Qwest** is on the verge of announcing a deal in which it likely would be a reseller as part of a partnership with a national carrier, most likely Sprint PCS.

Notebaert confirmed Monday that a wireless deal has all but been signed. In response to whether the deal involves Sprint, Notebaert would only quip: "I didn't say a thing."

While joint marketing agreements make some sense in addressing current needs, similar arrangements in the past haven't always been successful.

Some critics believe such partnerships also are difficult because company executives naturally want to be in control, rather than sharing control with another company.

The expanded agreement between EchoStar and SBC calls for integrated billing and services to be co-branded as the SBC Dish Network.

The agreement between EchoStar and **Qwest** is a first step, with billing of the video services initially handled by EchoStar.

"**Qwest** is going to watch SBC and see how their integrated deal goes before they invest any kind of capital into a relationship," Comack said.

Notebaert said the customer will drive how the relationship with EchoStar proceeds. "We'll work on the most readable (billing) format and do that with the customer. We'll watch how the customer reacts to what we're doing."

INFOBOX

EchoStar

DISH: Nasdaq

\$36

UP 67 cents

Qwest

Q: NYSE

\$4.41

DOWN 19 cents

SBC Comm.

SBC: NYSE

\$23.13

DOWN \$1.05

Satellite TV/telecommunications marketing alliances

IN COLORADO AND NEBRASKA*

Companies: **Qwest** and EchoStar.

What customers can get: In early August, residential customers (single-family only) will be able to call one number and order packages that include telephone, high-speed Internet and satellite-TV services.

Qwest will be able to add a satellite-TV option for customers, and EchoStar expects to attract more customers who need a high-speed Internet option. Initially, customers will get separate bills from **Qwest** and EchoStar, but a one-bill service might be in place by next year.

More markets to come

IN PHOENIX, TUCSON AND SEATTLE*

Companies: **Qwest** and DirecTV.

What customers can get: Similar agreement as above.

IN SBC COMMUNICATIONS' 13-STATE COVERAGE AREA*

Companies: EchoStar and SBC.

What customers can get: An expansion of a year-old agreement. Satellite-TV services will be co-branded under SBC Dish Network, billing will be integrated, and separately SBC agreed to make a \$500 million investment in EchoStar in the form of debt that can be converted into equity.

NOTES:

SEE END OF TEXT FOR INFOBOX

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August 27, 2003 5:17 a.m. EDT

FROM THE ARCHIVES: August 27, 2003

BellSouth, DirecTV Sign Agreement

**Marketing Accord Covers 9 Southern States
To Bundle Video, Phone and Web Access**

By **ANDY PASZTOR** and **ALMAR LATOUR**
Staff Reporters of THE WALL STREET JOURNAL

Accelerating the trend toward bundling video, telephone and Internet access in one consumer-friendly package, **BellSouth Corp.** and **Hughes Electronics Corp.**'s DirecTV signed a joint marketing agreement covering nine Southern states.

The partnership between the regional phone operator and the satellite-broadcaster, announced Wednesday, fills a strategic gap, helping each side compete against the aggressive rollout of new services by cable-television rivals, but with relatively little investment and limited risk.

Building on similar pacts previously announced by two other regional telephone providers and satellite broadcasters, the latest arrangement may expand into a broader partnership between the two companies. It also could set a precedent for giving residential customers both telecommunications and entertainment services in the future as part of a single, seamless offering.

BellSouth, facing a shrinking customer base for its traditional landline telephone business, hopes to revive growth by offering a wide range of new, add-on services. The deal with DirecTV will turn the Atlanta-based company into a one-stop shop for everything from video and broadband Internet connections to local, long-distance and wireless phone services.

For at least the next year or two, customers who sign up for DirecTV, the U.S.'s No. 1 satellite-to-home broadcaster, will continue to need a special antenna. But down the road, DirecTV is looking to provide extensive video content for distribution through BellSouth's expanding fiber network.

COUCH POTATOES

Trying to fend off intense cable competition, phone companies have added video services through these satellite partnerships:

Company	Video Partner
BellSouth	DirecTV
SBC Communications	EchoStar*

For DirecTV, which is lagging behind both satellite and ground-based rivals in Internet connectivity, partnering with BellSouth offers a chance to grab new customers who want such services along with satellite-television hookups. After focusing for years on distributors and retail outlets to snare more subscribers, DirecTV is now trying to rev up growth by piggybacks on the customer base of entrenched phone companies. The strategy, among other things, seems targeted

Qwest Communications Int'l

DirecTV

** SBC also invested \$500 million in convertible bonds*

at cable-television company **Comcast Corp.**, which has proved particularly effective lately in adding broadband customers.

Hughes's decision also means that DirecTV, along with the rival Dish network of satellite-broadcaster **EchoStar Communications Corp.**, has given up hope of quickly launching high-speed Internet services relying entirely on satellites.

Under the agreement, customers will get a discount if they sign up for a bundle of services. BellSouth, which has 45 million customers, will provide customers with a single bill, including DirecTV satellite programming. The companies plan to launch joint advertising campaigns and share the cost of the customer discounts. DirecTV, El Segundo, Calif., will retain control over installations and subscriber service. A large-scale rollout is scheduled for early 2004. The nine states in the agreement are Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee.

Hughes management hopes that BellSouth's marketing muscle will help raise DirecTV's overall brand recognition and thus increase sales through national retail outlets. Last month, DirecTV announced a less-extensive agreement with **Qwest Communications International Inc.** to test market bundled services in two metropolitan areas. DirecTV also continues to talk with **Verizon Communications Inc.** about a possible joint venture that would further expand the joint marketing concept.

Before DirecTV's video programming can be routed through BellSouth's fiber network, the companies will have to resolve questions about content rights, technology and other issues.

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